

Haere mai Welcome to Our Airport



Our airport is vital to the whole country. It is where we welcome visitors and farewell friends. It is a city within a city, generating billions of dollars for the economy, creating thousands of jobs, and helping grow New Zealand tourism. It is where New Zealand touches the world. Welcome to Auckland Airport.



Front cover

The wero, performed by Andrew Baker, flight service manager, Air New Zealand, is an emotional and powerful part of a formal Maori welcome – the powhiri.

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Annual meeting

The Auckland International Airport Limited annual meeting will be held at: 10.30am, Wednesday 25 October 2006, Genesis Theatre, TelstraClear Pacific Events Centre, 770–834 Great South Road, Manukau City, New Zealand

24 million passengers by 2025

Our airport welcomes more than 70 per cent of visitors to New Zealand, and we are preparing to welcome millions more over the next 20 years. Strong growth in international travel and tourism, combined with large-scale events like the Rugby World Cup in 2011, are set to increase visitor numbers by a projected 32 per cent in the next six years. Beyond that, our masterplan projects that by 2025 we will receive 15.3 million international and 8.6 million domestic visitors per year – a total of around 24 million passengers passing through our gateway annually. Today, we are Australasia's second busiest airport for international passengers and New Zealand's second largest freight port by value. With tourism being the country's number one export earner, we are committed to delivering the infrastructure and services needed to create a world-leading airport enterprise.



GEMMA WRIGHT
CUSTOMER SERVICE OFFICER
AUCKLAND INTERNATIONAL AIRPORT LIMITED

555 people on one plane

Our airport is eagerly awaiting the arrival of aviation's next generation aircraft, the Airbus A380, due to arrive in Auckland in 2008. These 560,000 kilogram planes are the world's largest commercial passenger jets, transporting up to 555 passengers (150 more than the Boeing 747) and flying non-stop for 20 hours. In preparation we have completed the widening and rehabilitation of our runway to accommodate the aircraft's 80 metre wingspan. This year we also completed the expansion of the Jean Batten International Terminal, and began the process of upgrading our domestic terminal, a \$42 million project we are undertaking in partnership with Air New Zealand. With 8,400 car parks, new aircraft hard stands and a new, more secure baggage screening system, we will be well placed to handle the increased flow of passengers and technical demands generated by the A380's arrival.



Zero major incidents

We are proud that Auckland Airport has had no major incidents this year. However, recent world events which impact airport security procedures still have an undeniable impact on the aviation industry. With passengers being reminded daily of the security requirements associated with air travel, airports are faced with the challenge of delivering systems that are secure, without compromising efficiency. Managing the safety of 160,000 aircraft movements, 11 million passengers and up to 5.5 million bags each year demands careful planning. This year we released our masterplan review, which plans for the safe and efficient operation of our airport over the next 20 years. Working in partnership with the Aviation Security Service and airlines, a new baggage screening process was implemented for 100 per cent of bags on international flights to meet international security standards.



LISA GOODMAN
RESPONSE OFFICER
AUCKLAND INTERNATIONAL AIRPORT LIMITED

Serving 30,000 people daily

Our airport accommodates 21 cafés, bars and restaurants; 8,400 car parks; a childcare facility, recreational areas, and playgrounds for children; and nearly 100 retail outlets. Over 30,000 people use these facilities every day and we work closely with retailers to identify ways in which we can improve customer experience in the unique, dynamic airport environment. In early 2006, we expanded our wireless computer network to create web access 'hot spots' in the international and domestic terminals, part of a continued rollout that will see web access available in most of the airport. We also began construction on a new \$1.3 million childcare centre that will accommodate 100 children from the airport community and its environs.



SU-IN KANG
SALES STAFF
KIWI DISCOVERY

1,500 hectares of freehold land

Our airport owns 1,500 hectares of freehold land located 21 kilometres from the Auckland CBD. Our \$189.6 million investment property portfolio supports and provides services for the airport community and includes the airport commercial park, business park and shopping centre, which together draw 23,000 people per week to our community. With 180 hectares of freehold land to be developed over the medium term, we plan to continue populating our 'city within a city' with a diverse range of tenants. New projects underway or completed in the past year include 1,400 square metres of retail space at our shopping centre, and 11,000 square metres of warehouse space in Airpark and Manu Tapu Drives. Last year tenants such as NZ Van Lines, Fliway Logistics, Pit Stop and JA Russell added to the 300-strong collection of businesses that are taking advantage of our airport community's prime location, excellent infrastructure and thriving customer base.



CLINTON HEALY
GENERAL MANAGER AND SENIOR SURVEYOR
BN WALKER SURVEYING

\$17 billion of added value to NZ

Auckland Airport is a vital hub for the New Zealand tourism industry. At last count, the tourism industry was worth over \$17 billion to the New Zealand economy, the equivalent of 18.7 per cent of New Zealand's total export earnings. Tourism is also responsible for 5.8 per cent of total employment in New Zealand, or 105,000 full-time equivalent employees. The industry makes a direct contribution of \$6.5 billion to the country's GDP and \$1.2 billion in GST from tourist expenditure. Over \$8 billion of income from tourism comes from international visitors. For more than two thirds of these visitors, Auckland Airport is where they form their first impressions of New Zealand – and we all know how much first impressions count. This is why Tourism New Zealand is so strongly supportive of Auckland Airport increasing its investment in its facilities. An investment in Auckland Airport is an investment in the future of New Zealand tourism.



GEORGE HICKTON
CHIEF EXECUTIVE OFFICER
TOURISM NEW ZEALAND

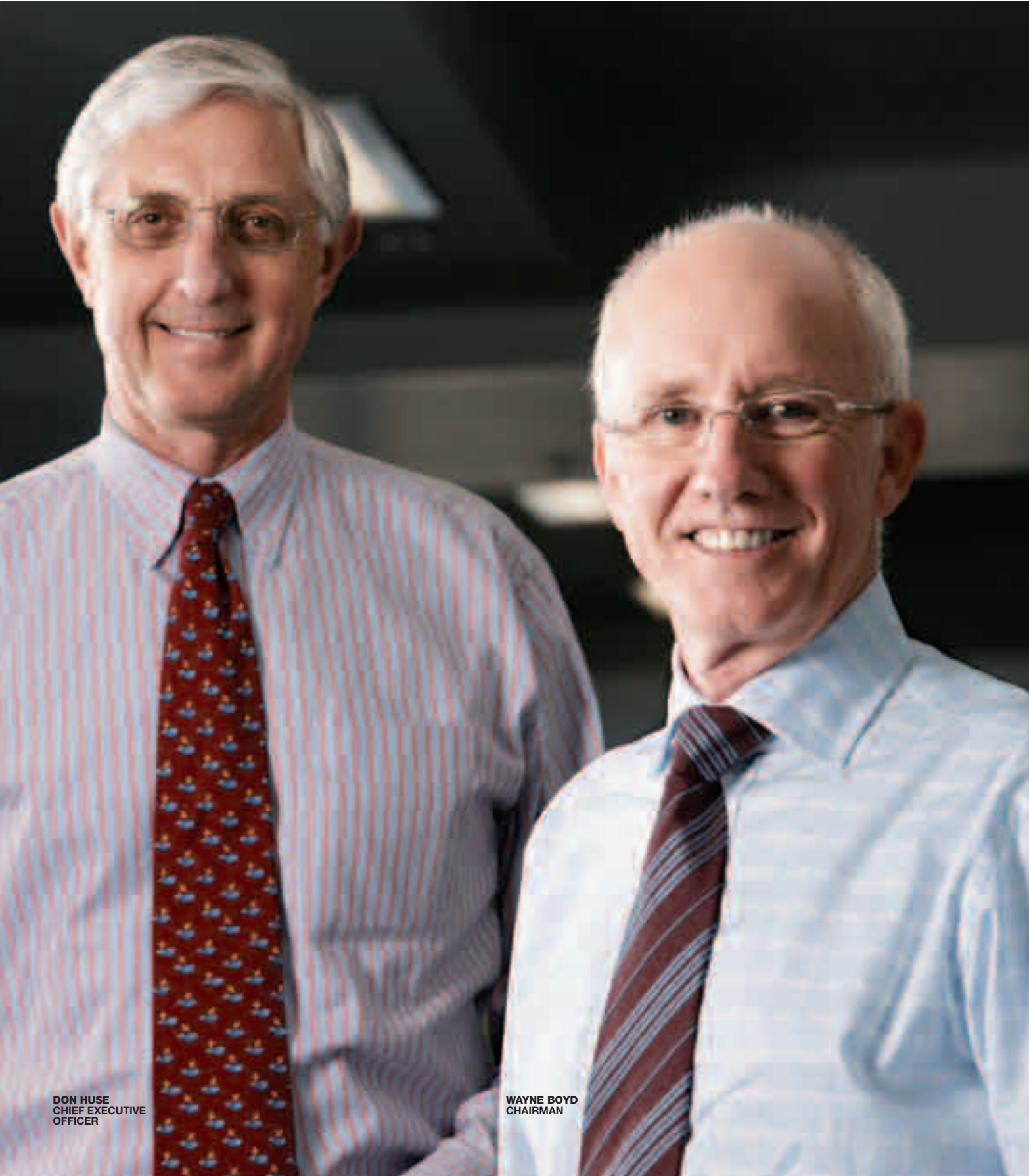
One marae

Our airport gives visitors their first taste of New Zealand culture. We aim to create a unique airport experience that delivers on 'the New Zealand story', and represents our many cultures. In March 2003, Auckland Airport and the local tangata whenua, Tainui, committed to build the world's first airport marae on land near Tom Pearce Drive. Later this year, the project will be completed. The marae will be a focal point for sharing Maori culture, welcoming and farewelling international guests, and ceremonial events for all cultures. The marae will help to create a warm, welcoming airport environment that represents New Zealand's friendliness and cultural diversity. Airport organisations such as the New Zealand Customs Service and the Ministry of Agriculture and Forestry will also use and contribute to the life of the marae.



\$100 million dividend

Our airport is a publicly listed company. We are committed to growing long-term shareholder value in a sustainable manner by adding value for our business partners and for our community. Since our listing, we have seen strong, continued growth in revenues and profits, with \$1,048.2 million paid out in dividends and capital repayments. We are listed on the New Zealand and Australian stock exchanges, with a market capitalisation of \$2.4 billion. Auckland Airport is more than an airport – we are a diversified business with investments in property, retail and car parking, and core competencies in running a world-leading airport enterprise. Our business has a strong stable cash flow – this allows us to invest in our country’s future and to pay regular dividends to our shareholders, most of whom are Kiwi mums and dads.



DON HUSE
CHIEF EXECUTIVE
OFFICER

WAYNE BOYD
CHAIRMAN

Directors' report

Auckland Airport is one of New Zealand's most important infrastructure assets. We are an essential component of tourism in New Zealand, the country's single largest industry.

In 2006, we made significant progress in developing and expanding Auckland Airport for the benefit of our airline customers and passengers. Our objective is to provide for the commercial aviation needs of the Auckland region for the next 50 years and beyond. This will be done in a sustainable way, which enhances long-term value for our shareholders.

Overview

This year marked the 40th anniversary of the official opening of Auckland Airport at Mangere. In the first year of operation, the new airport handled around 750,000 passengers, 22,000 aircraft movements, and 8,300 tonnes of freight. Today, Auckland Airport handles, in total, more passengers every month than were handled in that first year.

The growth over the last 40 years has been considerable. Auckland International Airport Limited (AIAL) has become one of the leading Australasian airports, second only to Sydney in terms of international passenger numbers. On a global basis, AIAL is benchmarked as one of the most cost-efficient and best-performing airports in the world.

In 2006, we made real progress in the continued development of Auckland Airport. A new 20 year masterplan was released. New international terminal areas and security projects were commissioned. The final stage of our runway rehabilitation project was completed. This included infrastructure to provide for Category III approach lighting, a visual navigation aid that will enable aircraft to land at Auckland Airport during conditions of very limited visibility such as fog. A new multi-level car parking facility at the domestic terminal was opened. We have commenced a major upgrade to the domestic terminal in conjunction with Air New Zealand, and a further expansion of the international terminal.

Our airline customers and passengers are already enjoying the benefits of our investment programme. More exciting developments are underway. These include a second runway at Mangere, the first stage of which we anticipate being operational in 2010 or 2011.

Throughout this period, we have continued to focus on enhancing shareholder value and increasing returns to shareholders. A major capital structure review was undertaken which resulted in increased dividends being paid to shareholders. Our investment programme

is already delivering increased aeronautical and commercial revenues. These will further increase over the next one-to-two years in particular as the real benefits from our investments are seen.

As we reflect on the 40th anniversary of Auckland Airport, and the achievements to date, we are reminded of the unique and irreplaceable nature of our airport. It is one of New Zealand's most important infrastructure assets. Supported by long-term growth in aviation and New Zealand tourism, our future will be as exciting as the past has been.

Strategy

Our corporate strategy remains dedicated to developing our core Auckland Airport business in a responsible, sustainable and secure manner. This involves providing high-quality aeronautical and non-aeronautical services and facilities for airlines, passengers, government border agencies, retailers, rental car companies, property tenants and others in a cost-efficient manner.

The board continues to evaluate other strategic options to enhance shareholder value. As noted below, this includes reviewing the company's capital structure and opportunities to increase returns to shareholders.

Results

The 2006 year was another record year in terms of passenger and aircraft movements. Total passenger numbers increased 1.8 per cent to 11,458,553. International passengers (excluding transits and transfers) were up 1.3 per cent to 6,213,647. Domestic passengers were up 2.8 per cent to 4,958,786.

These increased passenger volumes delivered another strong trading result, with revenues growing 8.2 per cent to \$305.814 million, exceeding \$300 million for the first time. Earnings before interest, taxation and depreciation (EBITDA) increased 8.4 per cent to \$240.161 million. Surplus after tax was \$103.155 million, once again above \$100 million. After adjusting for the increased interest costs associated with the special distribution to shareholders and asset sales in both the second half of the 2006 year and the first half of the 2005 year, this result was an increase of 3.2 per cent over last year.

A detailed analysis of AIAL's financial performance in 2006 is included in the financial report section.

Directors' report CONTINUED

Capital structure and returns to shareholders

Your board of directors continues to focus on optimal capital structure and enhancing distributions to shareholders. A fully imputed interim dividend of 3.75 cents per share (3.75 cents per share last year), amounting to \$45.786 million, was paid in March 2006. The directors have declared a final ordinary dividend of 4.45 cents per share (4.45 cents per share last year), amounting to \$54.313 million. The final dividend will be paid on 20 October 2006 to shareholders on the register at the close of business on 13 October 2006. The dividend will carry full imputation credits. The normal supplementary dividend, sourced from corresponding tax credits available to the company, will be paid to non-resident shareholders.

Total dividends for the 2006 year will, therefore, amount to 8.20 cents per share (the same as last year) or \$100.098 million. This equates to 97 per cent of the surplus after tax. The formal dividend payout policy remains at 90 per cent of surplus after tax. However, the directors will look to declare dividends above this level, subject to the cash flow requirements and outlook at the time, and the availability of imputation credits.

As part of the capital structure review, an on-market share buy-back programme was also implemented during the year under review. AIAL acquired 4.120 million shares (0.3 per cent of its total issued shares) for a total cost of \$8.192 million. These shares were subsequently cancelled. At this stage, the company does not intend to recommence the programme in the 2007 year. However, the on-market share buy-back alternative will be reviewed by the board as part of its ongoing approach to capital management, and may be implemented again in the future.

Corporate governance

The board of AIAL continues to be committed to the highest standards of corporate governance. This includes complying with the corporate governance principles of the New Zealand and Australian stock exchanges which are incorporated into the board's charter.

As recently announced, Mr Wayne Boyd will retire by rotation from the board at the company's annual meeting on 25 October 2006 and will not seek re-election. Mr John Maasland has been appointed to the board. It is intended that he will replace Mr Boyd as chairman upon Mr Boyd's retirement. In accordance with the company's constitution, Mr Maasland will retire at the company's annual meeting and, being eligible to do so, will stand for election at that meeting.

Mr Wayne Boyd and Mr Michael Smith have resigned from the audit and risk management committee. They have been replaced by Mrs Joan Withers and Dr Keith Turner. Mr Smith was appointed as the chairman of the nominations committee, replacing Mr Boyd in that role. Mrs Withers resigned from the remuneration committee and was replaced by Dr Turner. Mr Smith was appointed as the chairman of the remuneration committee following the resignation of Sir Wilson Whineray at the company's annual meeting in 2005.

Dr Turner retires by rotation. He is eligible under the company's constitution to stand for re-election and has chosen to do so.

Directors' fees

The quantum of directors' fees was last increased at the 2004 annual meeting when shareholders approved a general increase of \$222,500 to \$560,000. This increase in part reflected the

discontinuance of retirement allowances and the freezing of allowances at the level prevailing at the time. That approved sum of \$560,000 was allocated by directors as follows:

Chairman (inclusive of all committee fees)	\$140,000
Other directors' base fee	\$70,000
Chairman of audit and risk management committee	\$15,000
Member of audit and risk management committee	\$10,000
Chairman of remuneration committee	\$10,000
Member of remuneration committee	\$5,000

The board's policy is to regularly seek independent advice on the appropriate level of directors' remuneration. The board has again obtained advice from John Egan of Egan Associates. In undertaking his review, Mr Egan has considered the skills, performance, experience and level of responsibility of the directors, and the market conditions currently prevailing. Mr Egan has recommended to the directors that the following fees would accord with current practice in companies of comparable scale to the company in New Zealand and Australia, and would reflect the increasing level of governance and consequently time commitment required of directors pursuant to national and international standards:

Chairman (inclusive of all committee fees)	\$160,000
Other directors' base fee	\$80,000
Chairman of audit and risk management committee	\$22,500
Member of audit and risk management committee	\$12,500
Chairman of remuneration committee	\$12,500
Member of remuneration committee	\$7,500
Ad hoc committee work (per day)	\$2,500

Directors are now proposing for shareholder consideration an increase in the total quantum of annual directors' fees by \$100,000 from \$560,000 to \$660,000, such amount to be divided among directors as they deem appropriate, but initially on the basis set out above. Remuneration for ad hoc committee work will only be paid for specific identified assignments approved in advance by the board and, in any event, within the approved sum.

Outlook

The company has completed another successful year, with continued growth in passenger and aircraft movements, and strong financial results. The company is focused on establishing a platform for long-term sustainable growth. A number of significant milestones have been achieved, including the completion of AIAL's vision for the future – the 20 year masterplan. Furthermore, the company has completed a number of major expansion and security projects on time and within budget. Several more major projects have been commenced and are underway.

We are also very focused on growing our commercial revenue streams. There is an improving trend in retail trading, and we have committed to a number of new property developments. These, and the other projects completed recently, will significantly enhance Auckland Airport's processing capacity, facilities and services, and will drive future revenue and earnings growth.

The company has continued to optimise its capital expenditure programme to reflect the current and forecast demand environment. A strong business case is required before developments proceed. Capital expenditure, exclusive of investment property developments for the 2007 and 2008 financial years, is expected to be around \$105 million and \$135 million, respectively. At that stage, AIAL's processing capacity and services will have been significantly enhanced, providing the necessary capacity for at least the following three to five years.

With most of the key projects being completed in the 2008 financial year, capital expenditure (excluding property developments) in the 2009 financial year is currently expected to reduce significantly to around \$50 million to \$70 million.

In the short term, the passenger growth rate over the next 12 months is expected to remain positive, although below the company's long-term growth rate of around 5 per cent. The recent fall in the New Zealand dollar and new services from Auckland Airport are expected to stimulate demand. We are seeing compelling signs of growth from new markets such as China and India. However, the real impact of the lower New Zealand dollar may not be felt until the second half of the 2007 financial year. In the meantime, recent increases in fuel prices and airfares, combined with the slowing New Zealand economy, are likely to dampen travel by New Zealanders in the short term. The recently foiled terrorist plots in the Northern Hemisphere and resultant heightened security measures may also impact demand and financial performance in the short term.

Taking these matters into account, combined with the high interest rate environment and depreciation costs associated with the company's investment programme, at this early stage in the new financial year, the directors currently expect the surplus after-tax result for the 2007 year to be similar to the 2006 result. That said, the stage is set for much improved earnings, particularly when passenger growth rates revert to the long-term trend. As always, this view is subject to the occurrence of any material adverse events or other unforeseeable circumstances.

Auckland Airport is critical to New Zealand's transport and tourism infrastructure. We remain committed to the long-term growth of our airport in a secure and sustainable manner.

Considerable progress has been made this year in developing and expanding Auckland Airport for the benefit of all our customers. The investment that we are making now will result in much improved earnings when passenger growth rates revert to the long-term trend. The company is strongly positioned to complete this current phase of our investment programme, and to continue to deliver long-term value to our shareholders.

On behalf of the board



Wayne Boyd

Chairman

24 August 2006



Thanks, Wayne ...

Chairman Wayne Boyd retires from the board of directors at the annual meeting on 25 October 2006. He joined the board in 1996 and was elected chairman after that year's annual meeting.

In his 10 years as chairman, the business has grown substantially. Revenue has risen from \$130 million to \$305 million and the number of passenger movements through the airport has increased by 58 per cent to 11.45 million.

Wayne oversaw the public listing of the company in 1998 and since then significant investment has been undertaken across the whole airport. This has included expansions of the international terminal, development of the retail and property portfolios, refurbishment and widening of the main runway to handle new generation aircraft and obtaining all consents for the second runway.

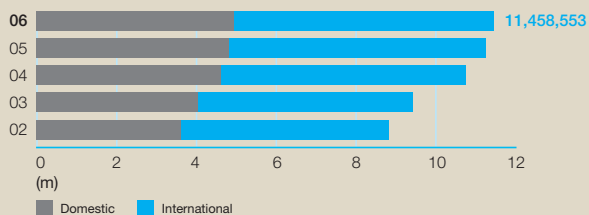
Capital investment increased on average from \$42 million to \$70 million per annum during his tenure, ensuring the legacy of a world-class gateway for visitors to New Zealand.

Directors, management and staff thank Wayne for his exemplary leadership and collegiality during the past decade.

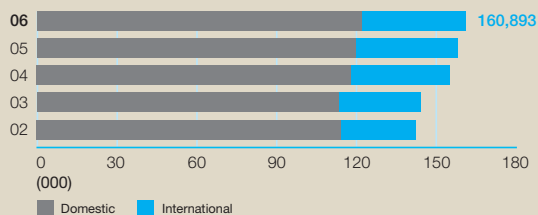
We wish Wayne and Ann all the very best.

Results at a glance

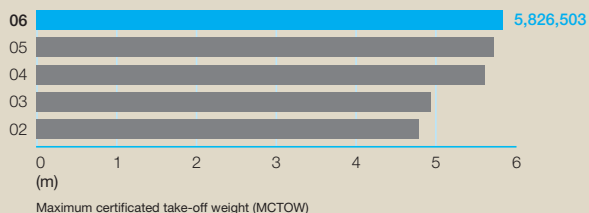
Passenger movements



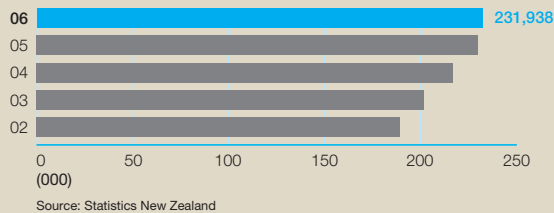
Aircraft movements



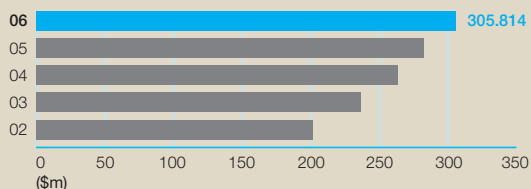
MCTOW tonnes



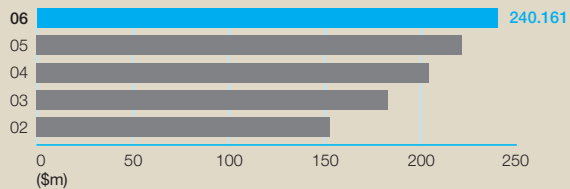
Cargo tonnes



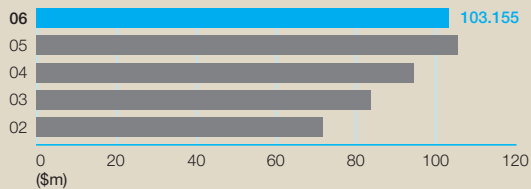
Revenue



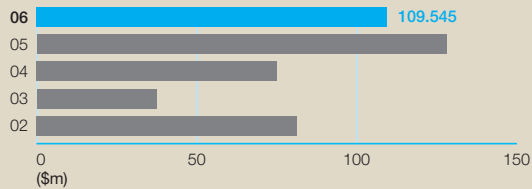
EBITDA



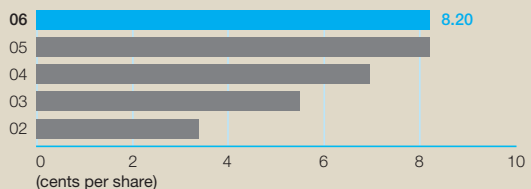
Surplus after taxation



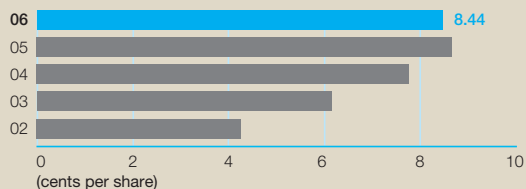
Capital expenditure



Ordinary dividends



Earnings per share



Highlights

11,458,553

Passenger movements

160,893

Aircraft movements

\$305.814 million

Revenue

\$240.161 million

EBITDA

\$103.155 million

Surplus after tax

\$100.098 million

Ordinary dividends

\$109.545 million

Investment in airfield, terminal, retail, car parking and property projects

\$1,399.333 million

Revaluation gain



Michael Smith

MCom

Michael Smith was appointed a director of the company in 1998. Michael was an executive director of Lion Nathan Limited. He joined the Lion Nathan Group in 1972 and was a director from 1986 to 2001. He is now chairman and a trustee of The Lion Foundation, and chairman of BrainZ Instruments Limited, ING (NZ) Holdings Limited, ING Property Management Limited and Tru-Test Corporation Limited. Michael is also a director of Fisher & Paykel Healthcare Corporation Limited, Hauraki Private Equity No.1 Fund and Hauraki Private Equity No.2 Fund.

Joan Withers

MBA, AM Inst D

Joan Withers was appointed a director of the company in 1997. She spent 18 years working in the media industry, holding senior management positions in both newspapers and radio, and has been a professional director for nine years. In July 2005, Joan became chief executive officer of Fairfax New Zealand Limited. She chose to keep only one of her previous directorships following her return to a leading executive role. That directorship is with Auckland International Airport Limited.

Wayne Boyd chairman

LLB (Hons)

Wayne Boyd was appointed a director of the company in 1996 and elected chairman after the annual meeting that year. After practising law for 18 years and investment banking for five years, Wayne established a specialist advisory business and a career as a professional director. He is chairman of Freightways Limited, Meridian Energy Limited and Telecom Corporation of New Zealand Limited, and is also a director of Forsyth Barr Group Limited.



John Maasland

MA (Cantab)

John Maasland was appointed a director of the company on 3 August 2006. John has held a number of senior executive positions with Wilson & Horton Limited, including chief executive officer from 1996 to 1998. He was appointed to the board of Carter Holt Harvey Limited in October 1998, and appointed chairman of Carter Holt in 2003. Other appointments include chairman of The New Zealand Radio Network Limited, South Auckland Health Foundation and the Royal New Zealand Ballet and director of APN News & Media Limited, Auckland Regional Chamber of Commerce, Macquarie Goodman (NZ) Limited, Deleat's Group Limited, Waterman Holdings Limited and Woosh Wireless Limited. John's appointment as a director will continue until the company's annual meeting, at which time he will retire by rotation and stand for re-election.

Anthony Frankham

FCA, FAMINZ, AC Inst Arb (UK), FM Inst D

Anthony Frankham was appointed a director of the company in 1994 and chairs the board's audit and risk management committee. A former partner in the New Zealand firm of Deloitte, he established his own specialist financial consulting practice in 1992. Tony is chairman of New Zealand Experience Limited. He is also a director of ProCare Health Limited, and a member of the New Zealand Takeovers Panel. Tony is a former director of 14 listed companies, including Capital Properties New Zealand Limited, Direct Capital Partners Limited, NZ Oil & Gas Limited, Otter Gold Mines Limited, Vertex Group Holdings Limited and Wilson & Horton Limited. He is a past president and life member of the Institute of Chartered Accountants of New Zealand and a former member of the Securities Commission and the Council of the International Federation of Accountants. He is chairman of the audit and risk committee of the Office of the Auditor-General and a member of the audit and risk committee of UNITEC.

Dr Keith Turner

BE (Hons), ME, PhD, FIEE, FIPENZ, FNZIM

Keith Turner was appointed a director of the company in 2004. He has 37 years' experience in the New Zealand electricity industry, the last 19 years of which have been spent in senior executive positions. He has undertaken widespread participation in reform of the industry, both in industry review teams and acting for the government on a range of industry boards to establish Transpower, Contact Energy, Meridian Energy and M-Co (the market operations managing company). Keith has held positions as managing director of DesignPower (a professional engineering consultancy to the electricity industry), as chief operating officer for ECNZ prior to its breakup, and as a specialist industry advisor on a range of reform initiatives and development projects. He also sat on the Market Surveillance Committee of the New Zealand electricity market from 1996 to 1999 prior to taking up his current position as chief executive of Meridian Energy following the breakup of ECNZ.

Chief executive officer's report

As we look to the future, Auckland Airport remains committed to delivering long-term sustainable services to the travelling public, freight customers, carriers, government agencies, on-airport businesses, and to local and wider communities.

Delivering value to all stakeholders

In 2006, AIAL continued to focus on its core obligations to operate safely and securely, and to deliver sustainable value to all our key stakeholders.

We released our vision for the future, the 20 year masterplan. We made significant progress on major airfield, terminal, retail, car parking and property investments. We continued to strengthen our senior management team.

Again, we processed a record number of international and domestic passengers.

As we look to the future, Auckland Airport remains committed to delivering long-term sustainable services to the travelling public, freight customers, carriers, government agencies, on-airport businesses, and to local and wider communities. This commitment reinforces our dedication to further enhancing long-term shareholder value.

Strong financial results

AIAL achieved record revenues in 2006, above \$300 million for the first time. All of the company's core businesses contributed to the result. Operating expenses were well contained, given the increase in AIAL's operating capacity and asset base, and the impact of inflation. The surplus after-tax result was again in excess of \$100 million, an increase on last year's result, after adjusting for asset sales and increased interest costs associated with the capital restructuring.

Following a comprehensive asset revaluation process, the value of AIAL's total non-current assets, including land, terminals, runways, car parking assets, retail assets and investment properties, increased \$1,399 million to \$2,698 million. This independent asset revaluation process was required under mandatory financial reporting standards. A significant component of the value uplift related to AIAL's terminal retail assets, which were incorporated into AIAL's financial statements on a discounted cash flow basis for the first time. This additional value further strengthens our balance sheet, and more closely aligns the company's book value of its shareholders' equity with its market capitalisation.

Masterplan

On 23 March 2006, AIAL released its 20 year masterplan. This was the culmination of a two year review process, which included consultation with AIAL's key airline customers, government border agencies and other major stakeholders. The masterplan charts the direction of airport development to 2025 and beyond. It covers all aspects of AIAL's activities, including airfields, terminals, freight activity, retailing, car parking, roading, property development and land-use. It is consistent with the Manukau District Plan.

For masterplanning purposes, passenger movements are projected to reach 24 million annually in 2025, up from 11 million today. The key conclusion from the masterplan is that Auckland Airport has the aeronautical, commercial and land capacity to accommodate the anticipated aviation growth in the Auckland region for the next 50 years and beyond.

While the masterplan provides the 'blueprint' of our future airport, the development of Auckland Airport will, as always, proceed on an incremental basis, matched to the demand environment and predicated on a strong business case.

A key element of the masterplan exercise concerns surface access to Auckland Airport. While we can provide for the region's aviation needs over the next 50 years and beyond, it is essential to the national and regional economies that efficient, reliable public access to the airport is available for travellers and freight.

Tourism

Tourism is New Zealand's largest single industry and export earner. In 2006, the airlines, accommodation providers, tourism operators and government agencies continued to promote New Zealand's strong international tourism profile. Recent declines in the New Zealand dollar are expected to further support tourism growth. Auckland Airport is the first and last experience for many of New Zealand's international tourists. We are enhancing our facilities and services to make their experiences with us even more enjoyable.

Aeronautical

Aeronautical and non-aeronautical activities are the two broad types of company operations in terms of revenue and expenses. Aeronautical activities include the provision of runways, taxiways and aprons, passenger terminals, and aircraft and freight facilities.

For the financial year total aeronautical revenue increased 11.8 per cent to \$145.030 million.

The company's aeronautical charges were last reviewed in September 2000. The most recent increase in landing charges was implemented in November 2002. These charges are due to be reset in September 2007.

Throughout 2006, AIAL continued the consultation process with its substantial airline customers with respect to the review of aeronautical charges. These include landing charges, terminal services charges and the airport development charge.

An aeronautical pricing proposal was provided to the airlines in July 2006. It is expected that the consultation process will continue for the next nine to 12 months.

AIAL is committed to having a positive and constructive engagement with our airline partners, with a view to reaching a negotiated outcome which recognises the interests of both parties and our joint responsibilities to the travelling public. To sustain the quality and capacity of its aeronautical services, AIAL must earn an appropriate return on its growing investment base. Equally, the airlines can properly expect such services to be supplied efficiently at a price that is cost effective to them. AIAL will continue to approach the process in a comprehensive and transparent way, mindful of its consultation and good-faith obligations.

AIAL has also consulted with its substantial airline customers on airfield and terminal development projects recently completed or currently underway. These include the expansion of the international terminal and the major renovation of the Air New Zealand domestic terminal. Details of these key projects are set out on page 20.

A separate aeronautical division was established within the company on 1 July 2006. The objective of this restructuring was to place all of AIAL's aeronautical activities, including aeronautical revenues, operations and route development, within one fully integrated business. This will allow AIAL to engage with our airline customers in a seamless manner on matters of service, quality, supply and pricing.

Government agencies

Following changes introduced last year, AIAL has continued to work with the New Zealand Customs Service, Ministry of Agriculture and Forestry (MAF) and the Aviation Security Service to improve passenger processing.

A number of changes to the approach to queuing for the MAF inspection has enhanced processing.

The company continues to work closely with Customs to develop an automated border processing system. This technology is expected to provide benefits to both parties and, most importantly, to passengers. A pilot scheme will be introduced in arrivals first and then gradually expanded into a more comprehensive system.

Carriers

The 2006 year has been a relatively stable year in terms of carriers and seat capacity into and out of Auckland Airport.

Air New Zealand has continued the progressive upgrading of its aircraft fleet by replacing its Boeing 767 aircraft with the larger Boeing 777. Air New Zealand increased its services to San Francisco from three flights per week to six flights per week. In addition, new services to London via Hong Kong and Shanghai are due to commence in October and November, respectively. Offsetting this, Air New Zealand has cancelled services from Auckland to Singapore.

Cathay Pacific has confirmed four additional flights per week to Hong Kong from 30 October 2006 to 31 March 2007.

The 2006 year has been the first full year with Pacific Blue at Auckland Airport. The airline is now providing seven services across the Tasman every week. In addition, Polynesian Blue commenced operations in November 2005, taking over from Polynesian Airlines. Thai Airways commenced flights direct from Bangkok (as opposed to via Australia).

Domestic traffic accounted for 76 per cent of all aircraft movements, which, again, was largely unchanged from the previous year.

The new A380 aircraft is currently scheduled for delivery to airlines beginning in the second half of 2006. Seven airlines currently servicing Auckland have placed orders for the new aircraft. At this stage, it appears that the first services to Auckland will be introduced by Emirates in 2008.

Given its importance to New Zealand trade and tourism, AIAL has committed to be A380-capable. The final stage of the runway widening project was completed over April and May 2006. Final upgrades to the apron and terminal facilities are expected to be completed this year.

Retail

Considerable progress has been made in the company's retail business over the 2006 year. Key developments include the reconfiguration of the international terminal pier, the opening of the new retail environment in the pier, the planning for the major new arrivals retail offering in the expanded international terminal, and the planning of the new retail precinct between the domestic terminals.

Retail income increased 2.4 per cent to \$86.712 million.

The construction activity associated with the airside passenger separation of the international terminal pier impacted the retail environment during the first six months of the 2006 financial year. A large number of airside retailers were directly affected by the project, and sales were adversely impacted. In addition, with the exception of The Collection Point (which facilitates off-airport retail sales), the company closed all of its own direct retail stores in August 2005. The new replacement stores did not open until December 2005. Unsurprisingly, this negatively impacted retail income in the first half.

Chief executive officer's report CONTINUED

The new retail precinct in the international terminal pier was fully completed in December. This has provided an overall increase in airside retail space of 600 square metres. This project also gave the opportunity to provide a better location for some of the existing airside stores, and to create a new 'destination product' precinct aimed at the non-New Zealand passenger market. Through its joint venture, HMSC-AIAL Limited, the company also substantially increased its airside food and beverage offering with fast food, a café and a bar with attractive views over the airfield and Manukau Harbour.

The company has seen an improvement in the international departures retail environment in the second half of the 2006 year. Retail income per international passenger was \$13.34, an increase of 1.3 per cent over the 2005 year. More importantly, however, the rate increased 6.1 per cent from \$12.95 in the first half of the year to \$13.74 in the second half of the year. The completion of construction activity and improved passenger facilitation have assisted the retail performance. In addition, the closure of AIAL's own direct retail stores resulted in the available shop space being re-leased using a more conventional concessionaire model to third-party retailers. This increased AIAL's yield from this space, while at the same time reducing AIAL's risk and investment. More recently, the decline in the New Zealand dollar has made the product range on offer more cost-competitive on a relative basis. This has also benefited passenger spend-rates.

Other new developments during the period included the opening of a new Rip Curl surfwear store, a last-minute duty free arrivals kiosk in the baggage hall aimed at better servicing the regular trans-Tasman traveller, a free internet service operated in association with Samsung, and a new Juice Bar. The company has enjoyed strong revenue growth from advertising, news and books, and destination products, following new agreements completed in late 2004 and early 2005.

At the international terminal airside, a new traveller massage service has been introduced, whilst an airside Kiwi-market is under consideration. Plans are also under development to redevelop the landside retail precinct, including the Jean Batten foodcourt. This will see a broader range of products and services introduced that better reflect the modern traveller's appetite for authentic food and beverages.

The construction of a new 2,200 square metre retail precinct between the existing domestic terminals commenced in April 2006, and is expected to be completed by December 2006. The new area, which has been fully leased, will include a book store, a bank, a destination product store, a florist, and a wide range of food and beverage outlets, including a specialist premium coffee operator, an authentic Asian sushi and noodle bar, as well as a new contemporary bar, and fast food. This new precinct will significantly enhance the scale and scope of the domestic retail and food and beverage offering. The area will link the two terminals, and benefit from a direct elevated walkway from the new multi-level domestic car park.

The new expanded arrivals project at the international terminal will double the size of AIAL's existing arrivals duty free offering. This will allow a considerable increase in the product range and services for arriving passengers, with an expected increase in retail revenues.

Planning is currently underway to optimise this new retail space. The project is anticipated to be completed in the first quarter of the 2008 calendar year.

Planning is also underway to significantly increase the size of the departures retail area, including emigration processing, at the international terminal.

Car parks

Car parking has again performed well in the 2006 year, with revenue up 6.2 per cent to \$24.847 million. This has been driven by the overall increase in passenger traffic, including New Zealanders travelling domestically, in particular. Car park prices were also adjusted during the year.

As at year-end, the company had 8,449 car parking spaces, an increase of 10.6 per cent over the previous year. This includes the new 850-bay multi-level car park opposite the domestic terminals opened on 10 July 2006. This car park facility provides a range of car parking services, including a premium product which is branded business parking, standard parking spaces, and new car rental facilities, including offices for on-airport operators. All parking bays are under cover. Much improved service levels will be achieved with covered access via an elevated walkway over the road.

The company will continue to expand its car parking services and facilities, and introduce further initiatives to meet the needs of the various car park user market segments.

Property

The company earns rental revenue from tenants in its terminals and cargo buildings, and from leasing stand-alone investment properties.

Rental from these property assets totalled \$31.502 million for the year, an increase of 7.7 per cent compared with \$29.243 million last year. The increase was due to the commencement of a number of new leases associated with completed developments and rental uplift on existing leases following rent reviews.

During the 2006 year, several new commercial property projects were completed. These included seven new retail outlets in the Airport Shopping Centre, a vehicle servicing outlet for Pit Stop, a retail warehouse for JA Russell, and an expansion of facilities for freight forwarder Kiwibond, and New Zealand Post.

In addition, new design and build developments, worth a total of \$23.1 million, were signed during the period. These include:

- a new 800 square metre office and 6,000 square metre warehouse facility for New Zealand relocation and storage specialists, New Zealand Van Lines Limited. This is currently being constructed, at a cost of \$7.8 million, in AIAL's new north airport development area;
- a 3,800 square metre extension to the Fliway Logistics warehouse in Manu Tapu Drive in AIAL's existing commercial precinct. This has a construction cost of \$5.0 million;
- a \$3.1 million expansion and upgrading of Air New Zealand's import and export freight terminals;
- a new \$6.1 million building for US-based logistics company Expeditors. The building will comprise a 400 square metre office



Over 160,000 aircraft movements a year



New 850-bay multi-level car park opposite the domestic terminals

facility and a 5,000 square metre warehouse. It will also be located in the new north airport development area;

- a new \$1.1 million childcare centre for Lollipops Educare, located in AIAL's designated recreation area. This new facility is intended to provide a bright, fun and educational environment for children in the airport community.

A number of other commercial property projects continue to be pursued. To provide for current developments and new opportunities, the company has continued to develop land for commercial properties near its northern boundary.

Each year, an independent valuation of the company's investment property portfolio is undertaken. Registered valuers Seagar & Partners completed the 2006 revaluation. As at 30 June 2006, the portfolio had a market value of \$189.557 million. This compared with \$172.767 million as at 30 June 2005. Net of additional capital invested, this represents a valuation increase for shareholders of \$13.615 million. It must be noted that this non-cash revaluation gain is taken directly to a revaluation reserve, and does not form part of the surplus after-tax result.

The masterplan process clearly identified an appropriate location for a hotel to serve the international and future domestic terminal. In conjunction with the development of the international terminal, the company will begin a process with a suitable hotel chain to undertake development. The company will use appropriate third-party expertise and equity to advance this important project, which will provide valuable additional services for travellers.

In June 2006, AIAL appointed Chris Gudgeon as its new general manager property. Chris was previously chief executive of Capital Properties New Zealand Limited. AIAL has more than 180 hectares of land available for continued commercial property development. The company will look to further accelerate the pace of development in order to expand its portfolio of investment grade industrial, commercial, office and retail properties while maintaining its prudent approach to managing development risk.

Information technology and telecommunications

Information technology and telecommunications (IT&T) continues to be an increasingly important aspect of airport management. It assists in managing passengers, providing flight information data, working with airlines and government agencies, and managing operational and commercial activities.

Key projects completed this year include the upgrade of the company's JD Edwards Enterprise Resource Planning (ERP) computer system, the expansion of the airport wireless network (including implementation of public wireless 'hot spots' to allow internet access by travellers), the commencement of a new management information system project, and a new commercial arrangement with a number of telecommunications suppliers.

Work is also underway in connection with the automated border processing project.

Surface transport access

Forecasts show there is no room for complacency by local and central government in planning and providing additional land transport infrastructure that will facilitate swift and convenient access to and from the airport. In particular, public transport systems servicing the airport require expansion, initially through dedicated bus services, but possibly also in the longer term by rail services. The company's own planning work includes allowance for a public transport centre to accommodate these developments.

Throughout 2006, the company has continued to strongly encourage the appropriate authorities to improve surface access to the airport. The authorities are responding, and plans are underway to achieve this. There is an urgent need to accelerate completion of Auckland's integrated state highway network, and to develop better secondary road linkages that feed traffic to the airport. Additionally, the company will work with other airport employers to provide viable and convenient alternative options to driving their own cars for the 10,000-plus people who work at the airport.

Management is actively promoting these matters to the appropriate authorities.

Chief executive officer's report CONTINUED

Major projects

A number of major projects were completed or commenced this year. The company is concerned to ensure its investment programme closely matches the current and anticipated demand environment, as well as the requirements of airline customers and passengers in terms of services and costs. The company continues to refine the specification, cost and timing of its proposed international terminal development programme.

International terminal pier separation

The construction of a new upper level on the existing pier, and the separation of arriving and departing passengers, in accordance with Civil Aviation Authority regulation, was completed on time in December 2005 at a cost of \$47 million. This was an extremely complex project which required construction activity to take place within an operating terminal environment.

Hold stow baggage screening facility

A new hold stow baggage screening facility at the international terminal, in accordance with Civil Aviation Authority regulation, was commissioned on time in October 2005 at a cost of \$28 million. This facility houses a new baggage sorting and screening facility which will enhance passenger safety by screening all bags stowed in aircraft holds.

Domestic terminal upgrade

The masterplanning process confirmed that the domestic terminals will remain in their current location for at least the next 10 years. Accordingly, a major upgrade to the Air New Zealand domestic terminal was announced. It is now being progressed in conjunction with Air New Zealand. AIAL is also developing a new retail facility between the two domestic terminals. This major upgrade to the domestic terminal will significantly enhance the facilities and services to passengers, airlines and other staff. The retail precinct is expected to open in late December 2006, with the remainder of the renovation being completed in December 2007.

In addition, the company completed a \$1.5 million upgrade to the Qantas domestic terminal forecourt which will reduce congestion, and provide a better flow for commercial and private vehicles.

International terminal expansion

The board has also approved an expansion to the international terminal. This will significantly improve the processing of arriving international passengers by providing increased space for border agency checks and reducing bottlenecks and delays currently experienced at peak times. This project will also allow the company to considerably enhance and increase the size and scope of its arrivals duty free retail offering, a key contributor to AIAL's retail business. The cost of the expanded arrivals processing project is anticipated to be just under \$100 million incurred over two years, with financial returns being derived from aeronautical charges and additional retail income.

The company has committed to developing a new Pier B at the international terminal, subject to final agreement on pricing. This will provide an additional two contact gates. The new Pier B will provide much needed gate capacity at peak hour at the international

terminal. AIAL has worked co-operatively with its airline partners to develop the appropriate specification and timing for this project. Pier B will also provide twin airbridges capable of handling the new Airbus A380 aircraft. The development is expected to cost \$50 million, and is expected to be completed in the middle of calendar year 2008. Returns will be derived from the airport development charge and, to a lesser extent, the terminal services charge.

Runway

The company completed the final stage of the rehabilitation of its main runway over April and May 2006. This included the final widening of the runway to allow A380 operations. In conjunction with Airways Corporation of New Zealand Limited, the company is also in the process of installing Category III approach lighting on its runway, a visual navigation aid, which will enable aircraft to land at Auckland Airport during conditions of very limited visibility such as fog. The company installed infrastructure for this project in conjunction with its recent runway rehabilitation programme.

Additionally, the company expects to be commencing geotechnical assessments of ground conditions for its second runway located in the north airport area.

Community

As a citizen of Manukau and Auckland cities, the company participates in business and community affairs. Effective two-way communication, in-depth knowledge and long-term relationships are the keys to good community relations.

In addition to environmental mitigation activities, the company also provides sponsorships that benefit a range of stakeholders in various ways. These include education and health, the environment and community, arts and culture, aviation and transport, and sport and recreation.

The company continues its role as the principal sponsor of the Life Education Trust in the Mangere, Papatoetoe and Otahuhu areas. The trust provides health education programmes to around 20,000 primary and intermediate school children each year. The programme gives children knowledge and life skills to help them make informed choices on issues such as nutrition, drugs and alcohol.

Local schools are supported by the company through a range of initiatives, such as the Jean Batten Primary School airport tour programme, and company staff are involved in the student mentoring programme with Aorere College.

The TelstraClear Pacific Events Centre opened in early 2005. It provides a major new events centre for arts, culture, business and leisure in Manukau City. Auckland Airport is proud to support this significant community resource. The company will again hold its annual shareholder meeting at the centre in October.

Stage 1 of the airport marae is scheduled for completion in late 2006. Carvers are making good progress on the adornments. The marae project has been well-supported by a wide range of our airport business partners. The project is being administered through a trust established jointly by the Tainui people and the airport company.



Over 300 businesses take advantage of the airport's prime location

A new sponsorship partnership is with the South Auckland Health Foundation. AIAL is sponsoring the rehabilitation areas at the recently opened National Burn Unit at Middlemore Hospital, including the gymnasium and occupational therapy rooms.

Life Flight Trust, which transports critically ill patients around New Zealand, is also a new beneficiary of AIAL's sponsorship programme. The company also supports the annual Villa Maria Cult Couture event which melds culture, art and high fashion, and is held at the TelstraClear Pacific Events Centre.

HMSC-AIAL Limited

This 50/50 joint venture operates food and beverage facilities at the international terminal.

AIAL's passenger separation project resulted in the relocation of all the joint venture's airside food and beverage facilities to the new second floor pier area, and this relocation had a negative impact on sales. AIAL's 50 per cent share of the joint venture's profit amounted to \$0.688 million, compared with \$0.844 million in the previous year.

Importantly, from service and commercial perspectives, the new facilities have more than doubled the existing outlet space, and provided travellers with new bar, fast food and espresso coffee offerings.

Quarantine waste

In May 2005, Sterilisation Solutions Limited, a subsidiary of Medi-Chem Limited, commissioned a state-of-the-art steam sterilisation unit to replace its existing incinerator unit. The facility uses the latest steam sterilisation technology which produces no harmful emissions to the atmosphere in a configuration that has the potential for recycling and recovery initiatives. This commissioning marks the termination of incineration for quarantine waste disposal and AIAL's withdrawal from this activity.

People and performance

It is important to acknowledge the value contributed to the business by all of our staff and our volunteers, the Bluecoats. Their superior performance this year is evidenced by the continuing high



Over 11 million passenger movements annually

standard of safety and security, efficient operations, and delivery of an array of complex projects, on time and on budget. My thanks go to the whole AIAL team.

Looking ahead

AIAL has made significant progress in 2006. We have continued to establish a very solid foundation for our future growth. We continue to be optimistic about the long-term growth prospects for the aviation industry, for New Zealand's tourism and travel industries and for our business.

Don Huse
Chief executive officer
24 August 2006



2 Robert Sinclair

BCOM, LLB (Hons)
Chief financial officer

3 Tony Gollin

JP, BCA, MPP, FCILT
General manager aeronautical

5 Don Huse

BCA, CA
Chief executive officer

1 Tony Wickstead

DIP BUS Marketing, DIP BUS Operations
Head of information technology
and telecommunications

4 Steve Reindler

BE (Hons), FIPENZ
General manager engineering



6 Nick Forbes

AFAIM, AFNZIM

General manager retail

7 Judy Nicholl

MED (1ST CLASS Hons, conjoint M.EDMgmt/MBA)

Head of people and performance

9 Chris Gudgeon

MBA, BE (Civil)

General manager property

8 Charles Spillane

BA, LLB (Hons)

General counsel and corporate secretary

Senior management team CONTINUED

1 Tony Wickstead

DIP BUS Marketing, DIP BUS Operations

Head of information technology and telecommunications

Background

Tony Wickstead has more than 10 years' experience in executive roles within the technology industry, in Australia and New Zealand most recently with Vending Technologies and Ernst & Young. This has included business strategy development and business planning, development of information technology strategy, change management, and implementation of financial management and ERP solutions.

Responsibilities

Tony's role is to develop and implement AIAL's long-term strategy for information technology and telecommunications also taking into account the requirements of its diverse group of stakeholders on the port.

Outlook

"AIAL is taking a technology and thought leadership role in the delivery of information technology and telecommunications solutions for its airport stakeholders. This includes regular and open interaction with those stakeholders to ensure technology decisions are predicated on sound business requirements."

2 Robert Sinclair

BCOM, LLB (Hons)

Chief financial officer

Background

Robert Sinclair joined Auckland International Airport Limited in 2005 from a career in investment banking and corporate and securities law in New Zealand and overseas.

Responsibilities

Robert is responsible for corporate strategy and planning, finance, treasury, financial reporting requirements, corporate affairs, investor relations and information technology.

Outlook

"Auckland Airport is one of the most important transport, tourism and infrastructure businesses in New Zealand. My role is to assist the board and management in developing the overall corporate strategy for Auckland Airport across all aspects of our business. I am also responsible for the company's financial strategy, ensuring that we maintain an efficient balance sheet to fund our investment programme while at the same time enhancing sustainable returns to our shareholders."

3 Tony Gollin

JR BCA, MPP, FCILT

General manager aeronautical

Background

Tony Gollin was appointed general manager of the newly formed aeronautical division in May 2006. He rejoined the company in 2004 as general manager corporate planning and strategy after previously working for the company from 1988 to 1997 in commercial and general manager roles. He spent the intervening years in London in international airport development and investment.

Responsibilities

Tony is responsible for the aeronautical division (formerly called operations). His role encompasses aeronautical pricing, air service route development and day-to-day operations of the airport.

Outlook

"This new division places all of the company's aeronautical activities within one fully integrated business unit. This will allow us to engage with our airline customers in a seamless manner on matters of service quality, supply and pricing. The need for this division is especially relevant given the current aeronautical pricing consultation and the substantial investments AIAL has made in core aviation infrastructure. My role is to help the company grow its aeronautical activities in a way that benefits aeronautical customers and especially the travelling public."

4 Steve Reindler

BE (Hons), FIPENZ

General manager engineering

Background

Steve Reindler joined Auckland International Airport Limited in 1997. He was previously general manager engineering and environment with BHP NZ Steel Limited.

Responsibilities

Steve is responsible for the planning, design, construction and maintenance of airport facilities, environmental management and local government liaison. In 2003 he was appointed by the Crown for five years as chairman of the Council of Chartered Professional Engineers and in 2005 joined the board of the Port of Napier Limited.

Outlook

"With the company's masterplan and terminal expansion studies as our guiding documents, we have commenced a major works programme in both the international and domestic terminals and very significantly, geotechnical work for the second runway has started in our north airport area. We have also broadened our focus to include planning for vehicle access to and from the airport and are now participating actively in a wide range of Auckland forums to achieve this."

5 Don Huse

BCA, CA

Chief executive officer

Background

Don Huse became chief executive officer of Auckland International Airport Limited in 2003. He was previously chief financial officer of Sydney Airport Corporation, chief executive of Wellington International Airport and a director of TransAlta New Zealand. He is a member of the Institute of Company Directors in both New Zealand and Australia.

Responsibilities

Don's role is to ensure the company develops and implements strategies that meet customer needs, recognise wider stakeholder interests and grow sustainable shareholder value.

Outlook

"Our vision is to be a world-leading airport enterprise. The company is now positioned to undertake the next significant stage of development to achieve that vision. My key focus is to build management and financial capability, strengthen stakeholder relations, and plan and deliver airport capacity on time and on budget. We will achieve this by working closely with our customers, while ensuring the airport continues to operate safely and securely."

6 Nick Forbes

AFAIM, AFNZIM

General manager retail

Background

Nick Forbes joined Auckland International Airport Limited in 2004 as general manager retail. His previous roles include retail business development for Australian Pacific Airports in Melbourne and as a commercial manager with Brisbane Airport Corporation.

Responsibilities

Nick is responsible for the development and management of the company's retail concessions, food and beverage, car parks, ground transportation, indoor/outdoor media and marketing. He is also a director of the company's joint venture food and beverage company, HMSC-AIAL, which owns a large proportion of the food and beverage outlets in the international terminal.

Outlook

"The retail businesses are key elements in the customer experience. This is reflected in retail being the largest single contributor to the company's revenue. We continuously innovate so we can create an exceptional airport experience that exceeds passenger and visitor expectations. During the last 12 months our new retail team has worked closely with our partners to develop the airport's future retail offering."

7 Judy Nicholl

MED (1ST CLASS Hons, conjoint M.EDMgmt/MBA)

Head of people and performance

Background

Judy Nicholl joined Auckland International Airport Limited in 2006 as head of people and performance. Judy has led and managed strategic human relations within several industry groups – primary processing, travel and tourism, education and New Zealand Police.

Responsibilities

Judy's role is to ensure and promote continuous performance improvement as a contribution to business growth.

Outlook

"AIAL recognises that its people are invaluable in making the company a world-leading airport enterprise. This is in line with its vision of encouraging each staff member to achieve their full potential. My role is to develop strategies that ensure we achieve our people and business goals and to enhance AIAL's reputation as a quality employer."

8 Charles Spillane

BA, LLB (Hons)

General counsel and corporate secretary

Background

Charles Spillane joined Auckland International Airport Limited in 2002 as legal counsel and was appointed general counsel in 2004. Charles added the role of corporate secretary in 2006. Before joining the company, Charles practised law at Russell McVeagh. Charles is a member of the executive of the New Zealand Listed Companies Association.

Responsibilities

Charles is responsible for corporate governance, share registry, risk management, insurance and the management of the company's legal and regulatory function, providing advice to all parts of the business.

Outlook

"Sound practice and high standards are the hallmark of AIAL's corporate and business dealings. With Auckland International Airport Limited being one of New Zealand's major listed companies, my role includes a diverse range of legal work to underpin its operations. This has included the establishment of the company's corporate governance principles, in which the company has committed itself to promoting investor confidence by providing forthright, timely and accurate information in accordance with the listing rules of the New Zealand and Australian stock exchanges."

9 Chris Gudgeon

MBA, BE (Civil)

General manager property

Background

Chris Gudgeon was appointed Auckland International Airport Limited general manager property in 2006. He was previously chief executive officer of Capital Properties New Zealand Limited in Wellington. Chris has been involved in property investment, development and construction in New Zealand for over 20 years.

Responsibilities

Chris is responsible for the development and management of the company's real estate assets.

Outlook

"The continuing development of Auckland International Airport Limited's commercial, office and retail portfolio forms an important part of the expansion of AIAL's non-aeronautical businesses. The company owns 1,500 hectares of which around 180 hectares remains available for commercial development over the medium term. Auckland Airport is a mini city providing high-quality distribution warehousing and office premises, supported by retail and amenities such as childcare and recreation facilities. We are also currently facilitating the development of on-airport hotels. This is an exciting time to be working in property development at the company and my role is to ensure all our new commercial ventures continue to be very competitive."

Sustainability and the environment



GARTH GLOGOSKI
UNDERGROUND SERVICES WORKER
AUCKLAND INTERNATIONAL AIRPORT LIMITED

As a major economic driver in Auckland and New Zealand, and a vital part of local and national infrastructure, Auckland Airport is committed to achieving sustainability in its operations and throughout the wider airport location.

The company takes a holistic approach to sustainability, covering economic growth, social equity and environmental management.

In this section of the annual report, we outline our environmental policies and present highlights for the year that demonstrate progress in environmental sustainability.

For our 2007 annual report we are planning to formalise our sustainability reporting, by reporting against internationally recognised indicators that will track performance in key areas of corporate and operational activity. Our objective is to continually improve our performance. In so doing, we affirm our commitment to the sustainability of the airport, the local community and its environs.

Our commitment to environmental management

Our vision is to operate in harmony with the surrounding environment. Continued rapid growth in both international and domestic passenger numbers, as well as freight volumes, makes our focus on sustainable environmental management more important every year.

The board and chief executive officer provide strong leadership for environmental compliance, policy development, staff involvement, and communication with stakeholders on environmental and social impact issues. We work at a number of levels to develop best environmental practices, as outlined below.

Environmental policy

The company's environmental policy is at the core of all environmental systems and activities. It details the company's commitment to:

- **minimising adverse environmental effects** by prevention and control of impacts associated with airport operations;
- **ensuring compliance** with environmental legislation, plans and standards;
- **setting and meeting objectives and targets** to minimise environmental impact;

- **continually improving** environmental management practices;
- **promoting commitment to the environment** to staff, tenants, customers and the community;
- **promoting environmental, social, economic and cultural sustainability** by purchasing environmentally friendly products where possible, conserving energy and water, reducing waste, and integrating sustainability considerations into the design of new airport facilities;
- **proactively working with government**, and participating in the development and implementation of statutory planning documents.

All employees and stakeholders are encouraged to become actively involved in the environmental management of Auckland Airport.

Environmental Management System (EMS)

The EMS includes responsibilities and procedures for implementing the Environmental Policy, and internal system audits.

Environmental Improvement Team (EIT)

The EIT investigates ways to minimise the impact of everyday airport activities on the environment. Members bring broad experience from AIAL and other airport-based companies. Issues addressed include spill management and stormwater contamination, resource conservation, waste management and regulatory compliance. Through this group, the company is developing its leadership role to help other businesses and organisations ensure the wider Auckland Airport environment is sustainably managed.

Spill committee group

The group is a subcommittee of the EIT concerned with eliminating spills. The potential accidental release of pollutants into the Manukau Harbour is one of the greatest environmental risks of Auckland Airport operations. AIAL has produced a management handbook on how to prevent, manage and mitigate spills.

Sustainability and the environment CONTINUED

Staff environmental training

All staff undergo environmental awareness training as part of their induction. Regular environmental updates are provided through internal communication and company publications.

Aircraft Noise Community Consultative Group (ANCCG)

The ANCCG is a group comprising representatives of the aviation industry, the community and business interests which addresses aircraft noise issues and concerns.

Environmental programmes

AIAL has a number of important programmes to improve the harmony between airport operations and the surrounding environment.

Greening the Airport

AIAL developed the Greening the Airport programme to raise environmental awareness among staff and encourage them to conserve energy, reduce waste and use resources efficiently. The programme is about achieving small adjustments in behaviours that add up to significant positive change.

Initiatives so far include recycling in staff lunchrooms, elimination of disposable cups and printing double-sided to save paper.

A 'Turn Over a New Leaf' pack that included tips on how to be more environmentally responsible at work and home was distributed to staff during the year. The pack, provided in a reusable grocery bag, included a coupon for a free native plant as a symbol of environmental awareness.

The Greening the Airport initiative demonstrates good employer practice and corporate leadership, contributes to the bottom line, and reduces the risk of non-compliance with environmental legislation. The long-term goal is to encourage other airport-based companies to participate in the programme.

Conserving energy while managing growth

While the number of flights and passengers continues to grow, terminal use fluctuates considerably day to day, depending on schedules and demand. Despite these challenges, the company is working to retain energy and resource use at current levels.

Our energy manager, asset management and control team, and energy conservation team are focusing efforts on how to use efficient building insulation, smart technology and good habits to control energy use. Air-conditioning temperature and lighting at the international terminal are automatically adjusted depending on weather, daylight and passenger numbers.

As part of the company's long-term assessment of different terminal development options, environmental and sustainability factors are part of the evaluation matrix used to determine a preferred building layout.

Strong property maintenance processes, continued performance monitoring, and the use of energy conservation features in new facilities will continue to shape our energy conservation programme.

Protecting water quality

The company's stormwater management system is highly effective in protecting the Manukau Harbour from contaminants.

Rigorous planning, staff training and housekeeping practices are backed up by advanced spill response capabilities, designated wash areas for aircraft, vehicles and equipment, and regular removal of rubber from runways. An extensive pond system enables natural treatment of stormwater before it enters the harbour, and also provides wildlife habitats and visual appeal in public areas.

The high-tech jet-fuel leak detection system installed in 2003 is a major commitment to groundwater quality. The system is able to quickly and accurately detect any leakage from the underground pipeline that carries around 3.5 million litres of jet fuel into the airport and to aircraft each day.

Managing waste

A major step forward during the year was the commissioning of a new environmentally friendly sterilisation facility to replace the old incineration operation.

The facility uses the latest steam sterilisation technology to produce zero harmful emissions to the atmosphere. It can process more than 5,500 tonnes of waste a year and is one of the largest of its kind in the southern hemisphere.

Quarantine waste from international flights is handled at the facility. This means that the airport company can do its bit to ensure that potential biosecurity threats are managed in an environmentally sustainable manner.

The facility can accommodate airport growth and increased demand for quarantine waste disposal, along with the disposal needs of the growing medical waste markets in the upper North Island.

On the announcement of the switch to the new sterilisation unit, the Greenpeace executive director at the time, Margaret Crozier said her organisation was delighted with the move. She said that the company had listened to the views of Greenpeace and local people, and that it was a positive step for both people and the environment.

New Zealand company Medi-Chem Waste Services Limited built and operates the state-of-the-art unit, and will own and run the facility for an initial 20 years.

Runway concrete recycling

In late May, Auckland Airport's final stage of the runway rehabilitation project was completed. This signalled the end of a programme that began in 1991. This was a major operation involving the replacement of hundreds of six-by-six-metre concrete slabs. The old concrete slabs were recycled for use in the construction of other pavements on the airport. Last year, 10,500 tonnes of concrete slabs were recycled and this year another 18,300 tonnes have been crushed for reuse.

Staff travel plan

The airport is integral to Auckland and New Zealand's transport logistics chain. In total, over 80,000 vehicles travel to and from the airport each day and traffic demand is expected to increase by 90 per cent by 2015.



Aircraft noise monitoring equipment in the community

Planned regional roading extension projects will help airport users, but the company is also keen to see improved public transport for travellers and commuters.

Travel plans are essential for a sustainable transport system. During the year, work began on developing a comprehensive travel plan, initially for staff from AIAL, HMSC-AIAL, Air New Zealand, New Zealand Customs, the Ministry of Agriculture and Forestry, and the Aviation Security Service.

The purpose of the 'Lift' programme is to find ways to reduce road traffic, and to identify, facilitate and promote ways of making commuting easier and cheaper for staff. Carpooling, an improved bus service, airport precinct travel ideas and a link to local railway stations are being considered. Staff have participated in focus groups and a range of solutions, educational material and incentives will be presented to staff in the near future.

Enhancing the natural and built environment

The company puts a lot of effort into providing attractive landscaping and native plantings in the airport parks, gardens, car parking areas and look-out points. These help to provide a good impression of New Zealand for international visitors. More than 70 per cent of all overseas visitors to New Zealand use Auckland Airport.

We give equal focus to the built environment by using design guidelines to create a consistent airport image, including building design site services and signage. Close attention is also paid to cleaning and litter removal.

Under our environmental policy (see page 27), sustainability considerations are integrated into new airport facilities.

Managing wildlife

AIAL shares its Manukau Harbour shore location with flocks of local and migratory birds, which poses some real challenges.

The company uses its good understanding of the natural environment and bird habits to make high-risk aircraft areas unattractive to birds. This includes actively controlling food sources and vegetation in high-risk areas, and using a range of scare devices.



Designated wash area for vehicles

Low-risk areas are made more attractive to birds. An example is the successful and now regionally significant bird roost developed and maintained by the company at Wiroa Island.

Managing aircraft noise

AIAL has a noise management plan and puts significant effort into minimising the impact of aircraft noise on the community. The company has a hotline and processes are in place for handling complaints.

Areas currently affected by aircraft noise, or likely to be affected by increasing aircraft activity or future urban development, are identified in the Manukau District Plan. Maximum noise levels are set for three different areas and are monitored continually.

AIAL also offers acoustic treatment packages including ventilation, insulation and extraction systems for existing houses once noise reaches certain levels. Developers must include acoustic measures to limit the amount of aircraft noise entering homes in these areas.

Approval for the development of a second runway was gained in December 2001, after close work with Manukau City Council and extensive community consultation and mediation on the management of aircraft noise. An approved noise mitigation programme for aircraft and the runway is included in the Manukau District Plan.

The company has developed close relationships with organisations and groups with an interest in airport noise issues. The Aircraft Noise Community Consultative Group provides a regular forum for local government, airline, industry and community representatives to discuss issues and action.

Auckland Airport Community Trust (AACT)

The company made an annual contribution of \$0.263 million (relating to the 2006 financial year and inflation adjusted for future years) to the Auckland Airport Community Trust, which allocates project funding for mitigation of aircraft noise. Recently the AACT has concentrated on funding literacy programmes in the community surrounding the airport. The trust can also provide hardship grants for people living under flight paths but unable to cover their share of the cost of acoustic measures for their homes.

Airport regulation and pricing



AIAL is committed to progressing a positive and constructive engagement with its airline partners.

Introduction

AIAL is consulting with its substantial airline customers and their representative body, the Board of Airline Representatives New Zealand Inc (BARNZ), on revised aeronautical charges to apply for five years from 1 September 2007. Aeronautical charges were last comprehensively reviewed in 2000. The current consultation process commenced in August 2004 and has involved a considerable exchange of information and views since then.

In July 2006, AIAL delivered to the airlines and BARNZ an aeronautical pricing proposal. It is expected that the consultation process will continue for another nine to 12 months before final prices are determined.

There are complex economic, regulatory and financial issues involved in aeronautical pricing. This section provides an overview of:

- the current regulatory environment for airports in New Zealand;
- the key issues which influence aeronautical charges;
- the outcomes which have been achieved under the current regulatory environment; and
- AIAL's approach to the current consultation process.

AIAL is committed to progressing a positive and constructive engagement with its airline partners. The aim is to reach a negotiated outcome which recognises not only the interests of both parties, but most importantly also delivers on the joint responsibilities AIAL and its airline partners have to the travelling public.

Aeronautical and non-aeronautical activities

AIAL's business is divided, in economic terms, into two 'tills'. One is the aeronautical till, which is subject to limited competition and, therefore, legislative regulation. The second is the non-aeronautical till, which is subject to open market competitive forces. A similar dual till regime applies in Australia.

Aeronautical activities comprise all elements of the company that relate to its aeronautical services, including the interface between ground and air transport. These include:

- airfield facilities to enable the landing, take-off and movement of aircraft, such as runways, taxiways and aprons;
- terminal facilities for the processing of passengers; and
- aircraft and freight facilities for the maintenance and service of aircraft and the handling of freight.

For airfield facilities, AIAL charges landing fees to the airlines on a user-pays basis. This means that large, heavy aircraft (with more passengers) pay more than small, light aircraft. Heavier and larger aircraft require longer, wider and stronger runway pavements, take up more space on the aprons and deliver more passengers to use the terminal facilities.

For terminal facilities, AIAL charges the airlines a terminal services charge. Again, this is determined on a user-pays basis. It includes recoveries for terminal space, plant and equipment and services. Departing international

passengers over the age of 12 years pay a \$25 airport development charge (ADC). Through both these charges AIAL recovers its operating costs, including its cost of capital on terminal assets and continues to fund the domestic and international terminals.

All other activities are non-aeronautical. These activities compete with other similar businesses, are tendered by way of concessions/licences to operate, or are discretionary to the users of the airport. Non-aeronautical activities do not relate to airlines or their services. Examples of non-aeronautical operations are the retail outlets in the terminals (duty free stores, specialty stores, news and book stores, and food and beverage outlets), taxis, public transport, car parks, car rental tenancies and property leases. The company gains revenue from these sources through commercially negotiated concession agreements, rental agreements, licence fees and direct charges for parking or the use of other facilities.

Current regulatory framework for airports

AIAL is an airport company constituted under the Auckland Airport Act 1987 and the Companies Act 1993. AIAL's approach to access to and pricing of its aeronautical activities is regulated by the general law relating to competition in New Zealand, namely the Commerce Act 1986, and specific legislation relating to airports, including the Airport Authorities Act 1966 and the Airport Authorities (Airport Companies Information Disclosure) Regulations 1999.

This legislative framework provides a 'light-handed' economic regulatory regime designed to ensure that airport companies do not abuse their market position, while at the same time also providing airport companies with the incentive to invest in the infrastructure required for the efficient conduct of their operations. This regulatory regime for airports can be viewed as part of the evolution of industry-specific regimes which have been developed to supplement the general approach to economic regulation in New Zealand. In this country, there is a strong preference for industry-led solutions which encourage investment in infrastructure and innovation. This is particularly important in a small nation such as New Zealand where key infrastructure investment is important without the cost burden of unnecessary regulation.

Some countries take a more 'heavy-handed' or prescriptive approach to economic regulation and price control of monopoly activities. This can result in decisions regarding commercial matters being imposed by a regulator, which, in turn, can cause inefficiencies and stifle investment.

The light-handed regulatory regime for airports in New Zealand has been in place for almost 20 years. It is characterised by four principal features:

- consultation with substantial airline customers;
- information disclosure to ensure meaningful consultation and regular monitoring;
- the countervailing power of substantial airlines; and
- the availability of sanctions in the form of price control under Part IV of the Commerce Act 1986.

Airport regulation and pricing CONTINUED

In particular, the Airport Authorities Act:

- (a) provides that every airport operated or managed by an airport authority, such as AIAL, must be operated as a commercial undertaking;
- (b) mandates that an airport company may 'set such charges as it from time to time thinks fit for the use of the airport operated or managed by it, or the services or facilities associated therewith'; and
- (c) requires airport companies to consult with their substantial customers in respect of charges paid for 'identified airport activities' (being those activities referred to above), and any other charges imposed on passengers travelling through the airport.

Prior to setting aeronautical charges, AIAL must have consulted with its substantial airline customers. The obligation to consult is onerous. AIAL approaches it in a very serious manner. It requires a comprehensive and transparent process and an open mind. In addition, there are long-standing legal and arbitration precedents, Commerce Commission guidance, economic principles and other established rules for determining appropriate aeronautical prices. AIAL recognises these rules in conducting the current consultation process.

In addition, AIAL is required to consult with its substantial airline customers before embarking on any capital expenditure on identified airport activities, where the amount of that expenditure (and related capital expenditure) is equal to, or likely (within a five year period) to be equal to, the value of 20 per cent of those assets which relate to identified airport activities. AIAL considers it imperative to foster strong working relationships with its airline partners in expanding and upgrading aeronautical facilities at Auckland Airport. As such, AIAL consults with its airline customers on a regular basis in relation to capital expenditure projects which have a much lower value than this statutory limit.

The Airport Authorities (Airport Companies Information Disclosure) Regulations 1999 also apply to AIAL. These regulations require the disclosure of certain information on a range of airport related matters, including audited financial statements for identified airport activities, passenger charges and charges for identified airport activities, the methodology used to determine the charges, the basis for allocating assets to identified airport activities, details of asset revaluations, operating costs of identified airport activities, cost of capital and certain operating metrics.

This information allows the Commerce Commission, BARNZ, the airlines and other interested parties to monitor the returns earned by AIAL from its aeronautical activities, the operational performance of Auckland Airport and the basis for setting aeronautical charges. It provides useful information in the consultation process.

AIAL is also subject to the Commerce Act which is the key legislation governing competition law in New Zealand. The Commerce Act prohibits a number of restrictive trade practices, prohibits the acquisition of a business if it would substantially lessen competition, and provides for the imposition of price control in a market in which competition is limited.

Between 2000 and 2002, the Commerce Commission undertook a comprehensive enquiry into airfield activities at the Auckland, Wellington and Christchurch International Airports. This provided an opportunity to review the current regulatory framework. While the Commerce Commission (by a majority decision of three to two) recommended price control for Auckland Airport, the Minister of Commerce (endorsing the views articulated by the officials at the Ministry of Economic Development) did not support this recommendation, emphasising that the current regulatory mechanisms were sufficient to facilitate the industry relationships which exist between airports and their significant customers. However, the recommendations contained in the Commerce Commission's report have provided important guidance to AIAL and to the airlines in connection with the current consultation process.

Countervailing powers and other factors

The market characteristics for airports in New Zealand are quite different from other industries or sectors (such as telecommunications, electricity or gas) that are subject to industry-specific regulatory regimes. In particular, the countervailing power of AIAL's customers, the airlines, is an integral part of the specific characteristics of the airport industry.

In New Zealand, the airlines have considerable countervailing power due to their collective approach to the airports through BARNZ. In addition, Air New Zealand is able to exercise considerable countervailing power over the international airports due to its significant position as an individual airline. This power is important as it acts as a constraining market factor which operates strongly upon airports.

This countervailing power can take the form of: fiscal duress (through withholding payments due); 'reputational' duress (through negative media campaigns); and legal, political and regulatory sanction (through judicial review, application to regulatory authorities, and presentations to Government).

Furthermore, airports have different characteristics to network industries. They cannot exploit controlled access to a network as a dominant supplier. An airport's 'market influence' relies on the absence of competition between airports.

However, competition does exist in the short-haul market (defined as a journey of around four hours or less). This is evidenced by the increase of international services operating at regional airports in New Zealand. Auckland Airport also competes on long-haul services with the east coast Australian airports, and pricing comparisons are frequently made with these airports.

Ultimately, the collective revenues for airports and airlines are passenger driven. Given the large, lumpy and fixed-cost nature of an airport's asset base, airports are compelled to maximise potential traffic growth to recover costs over the long run and to ensure that aeronautical pricing does not compromise demand. Also, the commercial upside from generating additional passengers outweighs that which can be gained through any suppression of demand by excessive aeronautical prices.

These factors, together with the regulatory regime referred to earlier, mitigate strongly against any potential market power that airports could exercise.

AIAL's assets

AIAL has the freehold ownership interest in approximately 1,500 hectares of land at Mangere. A substantial amount of this land is used for existing airfield and terminal activities or areas reserved for airfield and terminal activities in the future. In addition, AIAL owns the runway, taxiways, aprons, terminal buildings, car parking buildings, infrastructure and commercial properties. AIAL has around 290 employees. Most are involved in terminal, fire, safety, maintenance, apron tower and project management services.



AIAL's key assets include:

Land

- Existing main runway (including reclaimed land);
- Eastern approaches to the main runway;
- Seabed;
- Land reserved for the second runway;
- Land under the passenger terminals;
- Land used or available for commercial activities.

Civil works

- Runway;
- Taxiways (aircraft roads);
- Aprons (aircraft parking areas);
- Public roads and car parks;
- Stormwater and drainage;
- Lighting and other infrastructure.

Buildings and services

- International and domestic passenger terminals;
- Hangars;
- Airfreight facilities;
- Fire station;
- Industrial sites;
- Administrative buildings;
- Aerobridges;
- Baggage handling equipment.

Plant, equipment and vehicles

- Fire tender and rescue vessels;
- Security equipment;
- Noise monitoring equipment;
- Communications technology;
- Computer hardware and software.

The nature of AIAL's existing assets and investments is that they have long, useful lives. In the case of terminals and runway facilities, the expected asset lives can be 30 to 40 years. Once completed, these assets cannot be readily moved or used for other purposes. Given this long-term investment horizon, it is essential for AIAL to operate within a stable operating and regulatory environment. If the investment process is inefficient in economic terms and is poorly managed, AIAL is exposed to considerable risks that these assets will be 'stranded' and that returns will be well below market expectations.

Asset valuations

AIAL is required by applicable financial reporting standards to periodically revalue its assets. This revaluation process must occur at least every five years and sooner if there has been a material change in the asset values. In accordance with these requirements, AIAL undertook a comprehensive revaluation of its property, plant and equipment and investment properties this year. Property, plant and equipment were last revalued in 2002. A range of valuation methodologies consistent with applicable financial reporting standards and valuation guidelines are used. The valuations were undertaken by independent professional valuers, widely regarded as experts in their particular fields.

With respect to civil works and specialised buildings, such as passenger terminals, the valuers calculate the replacement cost of each asset. The efficiency of use of each asset is reviewed and, if appropriate, the replacement cost is reduced to reflect any unnecessary capacity. The result is the optimised replacement cost. This value is then depreciated as a measure of the use to be gained throughout the remainder of its economic life. The final asset value is termed the optimised depreciated replacement cost (ODRC).

The values for AIAL's aeronautical assets provide an input into the aeronautical pricing consultation process. It is important to obtain updated asset values as pure historical cost accounting would not provide a timely measure of changes in the value of those assets and may not be an appropriate basis for determining charges going forward. However, there are a number of other considerations, such as valuation methodologies, asset optimisation and the treatment of revaluation gains, which are relevant in the context of aeronautical pricing.

The 'building blocks' model

In determining appropriate aeronautical charges, AIAL uses what is commonly referred to as the 'building blocks' model. This is a commonly accepted approach used by regulated industries across New Zealand, Australia and other countries. The 'building blocks' model is a detailed financial model which contains a full range of assumptions such as passenger forecasts, aircraft movements, asset values, operating costs, depreciation and taxes.

The model is used to determine an upper limit to aeronautical revenues by reference to a weighted average cost of capital (WACC). The capital asset pricing model, a set of mathematical formulae containing assessments of specific business risk and costs of borrowing, is used to calculate the WACC for AIAL. The WACC is a theoretical surrogate for a competitive market.

Airport regulation and pricing CONTINUED

This approach to the 'building blocks' model and WACC is consistent with the approach of the Commerce Commission.

Benchmarking

AIAL also compares its aeronautical charges with other similar airports in the region. This exercise is referred to as benchmarking. AIAL believes that its charges compare well to those of other airports in Australasia with a similar scale, complexity and passenger mix, such as Sydney Airport. Auckland Airport also compares well against other global airports.

However, airport benchmarking is fraught with difficulty. Each airport has a set of unique characteristics relating to capital expenditure, the range and quality of services provided, operating costs, asset values, aircraft mix and passenger mix.

Even in New Zealand, each airport owns and operates a unique set of assets, and experiences a unique mix of aircraft and passengers. These factors make simple pricing comparisons impossible. The problem is even greater if international comparisons are attempted. This is because of the diversity of airport ownership and management structures worldwide and the influence of changing foreign currency exchange rates. Corporate structures and commercial mandates, like those in New Zealand, are still relatively uncommon in the rest of the world.

Economic contribution

New Zealand's infrastructure development is an important element in the nation's productivity challenge, and Auckland Airport is an important part of New Zealand's transport and tourism infrastructure. Investment in Auckland Airport is essential to the ongoing economic growth of the Auckland region and New Zealand.

Auckland Airport:

- generates or facilitates more than \$17 billion a year of value added to the New Zealand economy including \$7 billion to the Auckland economy;
- constitutes, in terms of the value added, 14 per cent of New Zealand's GDP and 20 per cent of the Auckland region's GDP;
- greets and farewells over 11 million passengers each year and over 70 per cent of all international travellers arrive or depart through this airport;
- operates 24 hours a day and sustains over 236,000 full-time equivalent jobs directly or indirectly;
- contributes to 15 per cent of national employment and 22 per cent of regional employment;
- is New Zealand's largest airport and second largest cargo port by value;
- is a major hub within the South Pacific for air travel, air freight and other related commercial operations; and
- every day sees, on average, more than 30,000 passengers pass through its terminals; 106 international and 335 domestic flight movements; 526 tonnes of cargo flown between New Zealand and other countries, and 102 additional tonnes to destinations within New Zealand.

Auckland Airport has a key role in New Zealand's economic infrastructure and domestic and international transport network.

Recent years have seen significant growth in the numbers of passengers and aircraft movements through the airport. In the Auckland Airport 20 year masterplan released earlier this year, passenger volumes are forecast to increase from 11 million currently to 24 million in 2025. Providing the aeronautical facilities and capacity to support and encourage this growth will require significant ongoing investment by Auckland Airport.

Government policy on infrastructure investment

AIAL believes that the Government's recent statement in relation to incentives of regulated businesses to invest in infrastructure is supportive of and consistent with the current regulatory regime applicable to Auckland Airport. That statement provides:

"The Government's economic policy objective is that regulated businesses have incentives to invest in replacement, upgraded and new infrastructure and in related businesses for the long-term benefit of consumers. The Government considers that this objective will be achieved by:

- Regulatory stability, transparency and certainty giving businesses the confidence to make long-life investments;*
- Regulated rates of return being commercially realistic and taking full account of the long-term risks to consumers of underinvestment in basic infrastructure; and*
- Regulated businesses being confident they will not be disadvantaged in their regulated businesses if they invest in other infrastructure and services."*

Auckland Airport is a critical piece of New Zealand's transport and tourism infrastructure. AIAL has been proactive in expanding and upgrading its aeronautical facilities for the benefit of airlines and the travelling public. Regulatory stability and the confidence to recover costs and earn fair returns on that investment are essential to encourage Auckland Airport to continue that programme.

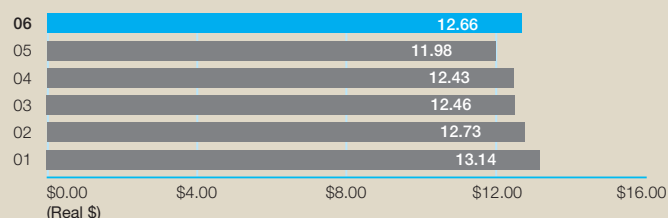
In terms of business mix, over 50 per cent of AIAL's revenue is sourced from its non-aeronautical (market contestable) business activities where earnings are potentially higher than aeronautical activities because of the higher WACC hurdle rate associated with the higher-risk, commercial side of the airport business. Aeronautical activities, on the other hand, demand a much higher proportion of an airport's fixed assets and operating expenses, but are capped at a lower aeronautical WACC return. This by itself does not strongly incentivise new capacity investment. For airports, therefore, it is important that a return commensurate with the higher business risks associated with non-aeronautical activities is available to encourage investment in new aeronautical capacity.

Outcomes

The current regulatory environment has worked well. It has achieved positive outcomes for airlines and passengers.

A key measure of an airport's aeronautical charges is aeronautical revenue earned per passenger over a period of time. The graph below shows that, over the last six years, aeronautical revenue per passenger (in real terms) earned by AIAL has declined by 3.6 per cent from \$13.14 to \$12.66.

Aeronautical revenue per passenger

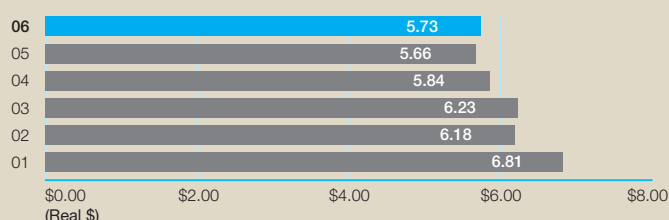


Note: Nominal values have been inflated to 2006 values and divided by total passengers. Core aeronautical revenue equals landing charges, the terminal services charge and the airport departure charges.

In other words, the aeronautical revenue that AIAL has earned (on a per-passenger real basis) has reduced over this period. The increase in the most recent year reflects the substantial investment in terminal facilities that AIAL has made in the last two years. Despite this, the aeronautical revenue per passenger earned by Auckland Airport is still less than that for the 2001 year.

A key measure of an airport's efficiency is operating expenses per passenger. Again, over the last six years, this metric has declined 15.8 per cent in real terms from \$6.81 to \$5.73.

Operating expenses per passenger



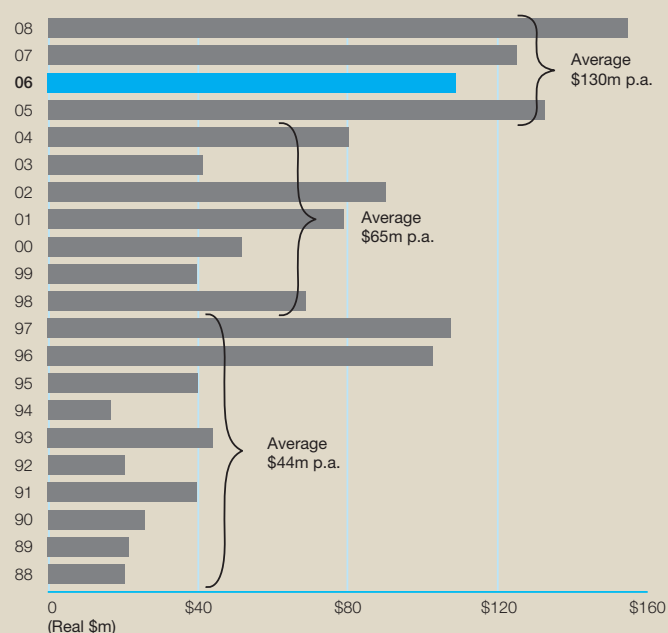
Note: Nominal values have been inflated to 2006 values and divided by total passengers.

Auckland Airport is one of the most cost-efficient airports in the world (as ranked by Transport Research Laboratory, an independent UK-based leading transport consultancy). AIAL's ability to contain its operating expenses has resulted in the ongoing improvement in its EBITDA margin, which is a ratio of earnings before interest, tax and depreciation to revenue. This metric is sometimes used to imply that Auckland Airport is making excessive profits on its aeronautical activities. This is not the case. AIAL's EBITDA margin is a function of many things, including its business model (in particular, the low number of staff), absence of ground handling operations, operating cost, regulatory environment and ability to generate non-aeronautical revenue streams.

The efficiencies that Auckland Airport has achieved are passed on to the airlines through the aeronautical pricing consultation process.

Most importantly, the current regulatory environment has created the right signals for Auckland Airport to invest in expanded and upgraded airport facilities for the benefit of passengers and the airlines. Since corporatisation, AIAL has spent approximately \$1 billion on new investment at Auckland Airport. On average, 75 per cent of this is aeronautical related. In real terms, the level of investment on average has lifted from \$44 million per annum from 1988 to 1997 to \$65 million per annum from AIAL's public listing in 1998 to 2004. AIAL expects to invest approximately \$130 million on average in each of the four years to 30 June 2008. AIAL's capital expenditure programme is set out in the following graph:

Capital expenditure



Note: Nominal values have been inflated to 2006 values.

Key developments over this four year period to 30 June 2008 include:

Project	Cost	Completion
Completed		
New international check-in facilities	\$12 million	December 2004
Pier B aircraft hard stands	\$28 million	December 2004
New level on Pier A at international	\$47 million	December 2005
Hold stow baggage screening facilities	\$29 million	December 2005
Runway rehabilitation and A380 widening	\$37 million	May 2006
Domestic multi-level car park	\$15 million	June 2006
Underway		
Domestic retail precinct	\$11 million	December 2006
Air New Zealand domestic terminal renovation	\$18 million	December 2007
International expanded arrivals	\$100 million	April 2008
Pier B at international	\$50 million	June 2008
Second runway	\$50 million	2010
Total	\$397 million	

Approach to the current consultation

The current consultation process relates to aeronautical charges which are expected to apply for a five year period from 1 September 2007. AIAL is looking to achieve a fair and reasonable return on its existing aeronautical assets and the investment it intends to make over this five year period.

In conducting the consultation process, AIAL is committed to a positive, constructive and open engagement with its airline partners and BARNZ on their behalf. AIAL is seeking to achieve a commercial and pragmatic outcome which reflects the interests of both parties and sets a platform for the continued growth in tourism and travel to and from New Zealand.

Financial report

This section provides an overview of the financial results and key trends for the year ended 30 June 2006 compared with the previous financial year.

A summary of the company's financial position, capital expenditure programme, financing sources and key performance indicators is also provided. Readers are referred to the financial statements and accompanying notes and accounting policies set out on pages 44 to 67.

The financial results set out below are the consolidated results for Auckland International Airport Limited and its subsidiary, Waste Resources Limited. The operations of Waste Resources Limited were, however, discontinued in May 2006, with AIAL's incineration operations being transferred to a new outsourced arrangement with Medi-Chem Waste Services Limited.

Results overview

The company enjoyed another strong year in 2006, with a surplus after taxation of \$103.155 million (once again exceeding \$100 million). This result was driven by a solid increase across all key revenue lines, combined with continued control of operating expenses.

Growth in passenger and aircraft movements contributed to an 8.2 per cent increase in revenue to \$305.814 million. Operating expenses increased 7.3 per cent to \$65.653 million, resulting in an 8.4 per cent increase in earnings before interest, taxation and depreciation (EBITDA) to \$240.161 million. Surplus after taxation was \$103.155 million, a decrease of \$2.486 million from last year, primarily as a result of increased interest costs associated with the distribution to shareholders. Earnings per share were 8.44 cents. Adjusted for the increased interest costs associated with the capital restructuring and the sale of residential properties

Results overview

	2006 \$m	2005 \$m	% change
Financial performance			
Revenue	305.814	282.725	8.2
Earnings before interest, taxation and depreciation	240.161	221.518	8.4
Surplus before taxation	146.704	153.394	-4.4
Taxation	43.549	47.753	-8.8
Surplus after taxation	103.155	105.641	-2.4
Earnings per share	8.44 cps	8.65 cps	-2.4
Ordinary dividends per share			
– cents per share	8.20 cps	8.20 cps	0.0
– amount	100.098	100.242	-0.1
Financial position			
Shareholders' equity	1,855.102	457.549	305.4
Total assets	2,757.861	1,279.944	115.5
Capital expenditure	109.545	127.773	-14.3

in the second half of 2006 and radio licence in the first half of 2005, surplus after tax was a 3.2 per cent increase over the 2005 year.

Ordinary dividends per share were 8.20 cents, equivalent to the 2005 year.

The company continued its capital expenditure programme during the 2006 year, investing a total of \$109.545 million in a range of runway, terminal, retail and investment property projects.

As a result of the asset revaluation process referred to on page 40, and the company's investment programme, total assets as at 30 June 2006 increased \$1,477.917 million to \$2,757.861 million. Shareholders' equity increased \$1,397.553 million to \$1,855.102 million. Surplus after tax has grown at a compound average growth rate of 9.6 per cent per annum

over the last five years. Ordinary dividends per share increased on average 24.8 per cent per annum over that period. The company has distributed \$768.428 million to shareholders over the last five years through ordinary dividends, special dividends or capital repayments. This includes the special dividend of 12 cents per share paid on 5 August 2005.

In addition, over this five year period, the company has invested \$431.116 million in a range of projects to develop Auckland Airport for the benefit of its users.

Passenger and aircraft statistics

In the 2006 year, total passenger movements were 11,458,553, an increase of 1.8 per cent over the 2005 year.

International passenger movements continued to grow, albeit at a rate lower than the company's long-term average. Total international movements reached 6,499,767, an increase of 1.1 per cent over the previous year. This increase was primarily driven by the competitive airline market, particularly on the trans-Tasman routes, and the introduction of a number of new services. These include the increase in Air New Zealand services to San Francisco and the continuation of the Pacific Blue services to Australia's Gold Coast. Transits and transfers declined during the year, primarily due to the rescheduling of a number of Qantas flights between the United States and Australia, via Auckland.

New Zealanders and Australians, based on country of last permanent residence, collectively made up 60.9 per cent of international passenger arrivals at Auckland International Airport. The significant contribution of trans-Tasman passengers reflects continued competition and growth in this sector. The trans-Tasman sector provides the company with a very solid base of passenger movements, which is expected to continue with increasing business and tourism linkages between Australia and New Zealand.

Strong growth was evident from China (8.1 per cent), India (11.3 per cent) and the United States (4.0 per cent). These increases were, however, offset by declines from the more traditional markets such as Japan and the United Kingdom. Arrivals from South Korea also declined, primarily due to Asiana Airlines ceasing services in March 2005.

The strength of the New Zealand dollar over the last several years has adversely impacted growth in international visitors to New Zealand. It is expected that the recent declines will reverse this trend. However, this will be moderated by the impact on New Zealand travellers and also recent airfare increases resulting from increased fuel costs.

The largest categories by purpose of visit remain holidays (47.1 per cent) and visiting friends and relatives (29.4 per cent).

Domestic passenger movements continued at record levels, driven by the increases in international visitor arrivals to New Zealand, and relatively stable domestic economic conditions. Domestic passenger movements during the 2006 financial year were 4,958,786, an increase of 2.8 per cent over the previous year. Competitive domestic airfares such as Air New Zealand's Domestic Express Service have continued to support domestic air travel.

Passenger and aircraft statistics	2006	2005	% change
Passenger movements			
International arrivals	3,081,918	3,057,261	0.8
International departures	3,131,729	3,076,638	1.8
Transits and transfers	286,120	298,262	-4.1
Total international passengers	6,499,767	6,432,161	1.1
Total domestic passengers	4,958,786	4,823,916	2.8
Total passenger movements	11,458,553	11,256,077	1.8
Aircraft movements			
International aircraft movements	38,757	38,465	0.8
Domestic aircraft movements	122,136	119,987	1.8
Total aircraft movements	160,893	158,452	1.5
Cargo tonnage			
International freight and mail	196,995	192,076	2.6
Domestic freight and mail	34,943	37,272	-6.2
Total freight and mail	231,938	229,348	1.1
MCTOW (maximum certificated take-off weight)			
International MCTOW	4,186,813	4,140,882	1.1
Domestic MCTOW	1,639,690	1,586,692	3.3
Total MCTOW (tonnes)	5,826,503	5,727,574	1.7

Passengers arriving at Auckland by country

Country of last permanent residence	2006		2005		Change	
	Arrivals	%	Arrivals	%	Arrivals	%
New Zealand	1,364,348	44.5	1,333,836	43.9	30,512	2.3
Australia	502,828	16.4	493,576	16.3	9,252	1.9
United Kingdom (incl Ireland)	250,725	8.2	257,152	8.5	-6,427	-2.5
United States of America	180,174	5.9	173,304	5.7	6,870	4.0
China (incl Hong Kong)	112,863	3.7	104,428	3.4	8,435	8.1
Japan	97,932	3.2	108,533	3.6	-10,601	-9.8
South Korea	80,784	2.6	88,950	2.9	-8,166	-9.2
Germany	43,142	1.4	42,793	1.4	349	0.8
Canada	36,900	1.2	35,088	1.2	1,812	5.2
Taiwan	25,695	0.8	25,490	0.8	205	0.8
Singapore	23,113	0.8	25,261	0.8	-2,148	-8.5
India	17,477	0.6	15,700	0.5	1,777	11.3
Other	331,877	10.8	332,849	11.0	-972	-0.3
Total	3,067,858	100.0	3,036,960	100.0	30,898	1.0

Source: Statistics New Zealand

Overseas visitor arrivals by purpose of visit

Purpose of visit	2006	2005	% change	% of total
Business/conference	236,721	231,312	2.3	14.4
Holiday/vacation	777,377	803,065	-3.2	47.1
Education/medical	39,777	39,104	1.7	2.4
Visiting friends/relatives	485,574	471,994	2.9	29.4
Other	110,747	104,547	5.9	6.7

Source: Statistics New Zealand

Financial report CONTINUED

Total aircraft movements were 160,893, an increase of 1.5 per cent over 2005. This was largely due to increases in international services by Air New Zealand and Pacific Blue, and domestic services by Air New Zealand, Air National, Air Nelson, Mount Cook and Qantas Airways. International aircraft movements were

38,757, an increase of 0.8 per cent over 2005. Domestic aircraft movements were 122,136, an increase of 1.8 per cent.

Auckland Airport also processed record volumes of cargo tonnage during 2006. Total tonnage was 231,938 tonnes, an increase of 2,590 tonnes (1.1 per cent) over 2005. This was driven by

further growth in imports and exports in particular.

The total MCTOW (maximum certificated take-off weight) was 5,826,503 tonnes, an increase of 98,929 tonnes (1.7 per cent) over 2005. Landing charges are calculated from the MCTOW of aircraft landing at Auckland Airport.

Financial performance

Airfield

As noted previously, airfield landing charges are based on the MCTOW of aircraft. In the 2006 financial year, airfield income was \$67.351 million, an increase of \$1.071 million (1.6 per cent) over 2005. This increase was primarily due to the increase in aircraft movements, combined with changes in the aircraft mix.

Development charge

The airport development charge (ADC) is levied on departing international passengers and provides part of the company's return on its terminal assets. Income from the ADC was \$60.405 million, an increase of \$10.874 million (22.0 per cent) over the previous year which resulted from the increase in the number of departing international passengers. The ADC remained throughout the year at \$25.00 (GST inclusive) per departing international passenger. Up to 1 October 2005, \$5.00 of this charge was paid to the government, contributing to aviation security and civil aviation charges.

From 1 October 2005, the company retained the full \$25.00 in recognition of its major international terminal investment programme. From that date, the \$5.00 previously paid to the government was transferred to the airline ticket.

Terminal services charge

The terminal services charge (TSC) reflects costs and recoveries from the airlines for international terminal operational areas, and is based on an agreed formula applied each year. In the 2006 financial year, the TSC was \$17.274 million, an increase of \$3.408 million (24.6 per cent) over 2005. This primarily resulted from the completion of the pier separation project and the hold stow baggage screening facility at the international terminal, along with additional plant and equipment and service charges.

Retail

The company earns significant revenue from its retail concessions, including duty free and specialty stores, foreign exchange, and food and beverage outlets. In the 2006 financial year, retail income was \$86.712 million, an increase of \$2.031 million (2.4 per cent) over 2005.

Revenue	2006 \$m	2005 \$m	% change
Aeronautical revenue			
Airfield	67.351	66.280	1.6
Development charge	60.405	49.531	22.0
Terminal services charge	17.274	13.866	24.6
	145.030	129.677	11.8
Non-aeronautical revenue			
Retail	86.712	84.681	2.4
Property rentals	31.502	29.243	7.7
Car parks	24.847	23.396	6.2
Interest	0.517	0.144	259.1
Utilities and general	16.518	14.740	12.1
Associated company	0.688	0.844	-18.5
	160.784	153.048	5.1
Total revenue	305.814	282.725	8.2

During the first half of the 2006 financial year, retail income was impacted adversely by a number of factors, including longer processing times (particularly due to heightened security arrangements), reduced traveller numbers from higher-spending Asian countries, peak period congestion, slow-down in off-airport duty free, disruption by construction activity and the changing passenger mix resulting from the new low airfare structure. The closure of the company's own stores to make way for the new retail expansion in Pier A of the international terminal has also had a minor revenue effect.

However, with the completion of the Pier A separation project, a distinct improvement in the retail performance was seen in the second half of the financial year. This resulted from increased income from new retail stores, the completion of construction activity, and improved passenger facilitation. In addition, the decline in the New Zealand dollar has made the product range less expensive on a relative basis, which has improved passenger spend rates.

Retail income per international passenger (including transits and transfers) was \$13.34 in the 2006 year, compared with \$13.17 in the previous year. With the completion of the pier separation project, retail income per international passenger increased significantly during the year

from \$12.95 in the first half of the year to \$13.74 in the second half.

Property rentals

AIAL earns rental revenue from space leased in facilities such as terminals and cargo buildings, and stand-alone investment properties. Rental income was \$31.502 million in 2006, an increase of \$2.259 million (7.7 per cent) over 2005. This was largely due to positive rent reviews and revenue from a number of new projects.

During the 2006 year, the company invested \$6.141 million in various property projects, compared with \$7.736 million invested in the previous year. A total of \$23.1 million of new developments was committed during the year. These included a number of new design build developments or expansion projects for New Zealand Van Lines, Flitway Logistics, Air New Zealand's freight terminals, Expeditors and Lollipop Educare.

The investment property portfolio had a market value of \$189.577 million at 30 June 2006, which represented an increase of \$16.810 million (9.7 per cent) over the valuation a year before. Net of the additional capital invested, this represents a valuation increase for shareholders of \$13.615 million. It is important to note that, under current financial reporting standards, this

non-cash gain is taken directly to revaluation reserves and does not form part of the surplus after taxation result or dividend distribution.

Car parks

At 30 June 2006, the company had parking facilities for 8,449 cars, an increase of 811 spaces (10.6 per cent) over the financial year. Revenue from car parks was \$24.847 million, an increase of \$1.451 million (6.2 per cent). This resulted mainly from an increase in car park usage rates, and revised parking charges. Increased growth in domestic travel by New Zealanders has contributed to the growth in the size of the car parking business.

Utilities and general

This category includes utilities (sale of electricity, gas and water), rates recoveries from tenants, transport licence fees and other miscellaneous revenue items. It also includes the \$1.949 million profit on the sale of nine residential properties which were situated on land not adjacent to AIAL's land holdings, and which were surplus to requirements. Total income from these sources was \$16.518 million, an increase of \$1.778 million (12.1 per cent) over the previous year.

Operating expenses

Despite a significant increase in its terminal operating areas and asset base, certain one-off costs and inflationary pressures, particularly in salaries and wages and utilities, the company has continued to maintain tight control of its operating expenses. Total operating expenses were \$65.653 million, an increase of \$4.446 million (7.3 per cent) over the 2005 year. The 2006 results

include the operating expenses associated with Waste Resources Limited which discontinued operations in May 2006. Staff costs were \$25.950 million, an increase of \$1.926 million (8.0 per cent), largely resulting from salary increases and restructuring costs. Repairs and maintenance costs were \$20.500 million, an increase of \$2.031 million (11.0 per cent). This included \$0.288 million in noise mitigation costs. Other costs, which include consultancy, legal expenses and supplies, were \$13.410 million, an increase of \$0.178 million (1.3 per cent) over the previous year.

Operating expenses for the 2006 year include \$2.086 million of one-off expenses relating to loss on disposal of property, plant and equipment in connection with the runway rehabilitation project (\$1.459 million) and restructuring costs (\$0.627 million).

Associated company

AIAL partners with the United States-based international food and beverage operator, HMS Host Inc, in a joint venture to operate food and beverage services at the international terminal. The company's share of the surplus after tax was \$0.688 million, a decrease of 18.5 per cent over the previous year. This resulted from the disruption to operations from the relocation of food and beverage outlets in the international terminal.

EBITDA and EBITDA margin

EBITDA was \$240.161 million, an increase of \$18.643 million (8.4 per cent) over 2005. This primarily resulted from the strong increase in revenue. The EBITDA margin was 78.5 per cent, a further increase from the 2005 margin of 78.4 per cent.

Depreciation, interest and taxation

Depreciation and impairment expenses were \$38.546 million, an increase of \$6.651 million (20.9 per cent) over the previous year. This mainly resulted from the company's continuing capital expenditure programme over the year.

The annual interest charge was \$54.911 million, an increase of \$18.682 million (51.6 per cent) over 2005, and was largely due to an increase in total borrowings to \$860.617 million at year-end, compared with \$640.217 million as at the 2005 year-end. The increase in borrowings primarily resulted from the company's capital restructuring and distribution to shareholders, combined with the funding for the ongoing capital expenditure programme (see page 41). Interest costs were also affected by interest rates remaining relatively high throughout the year.

Taxation expense was \$43.549 million, a decrease of \$4.204 million (8.8 per cent) over the previous year, as a result of the lower earnings before taxation. The effective tax rate was 29.7 per cent, compared with 31.1 per cent in 2005. The lower effective tax rate resulted primarily from differences between accounting and taxation depreciation rates, along with the one-off impact of the sale of residential properties.

Surplus after taxation

Surplus after taxation was \$103.155 million, a decrease of \$2.486 million (2.4 per cent) over 2005. Earnings per share were 8.44 cents per share. Adjusting for the increased interest costs associated with the special distribution to shareholders, the sale of residential properties in the second half of 2006 and the sale of the radio licence in the first half of 2005, surplus after tax increased 3.2 per cent over the previous year.

Dividends

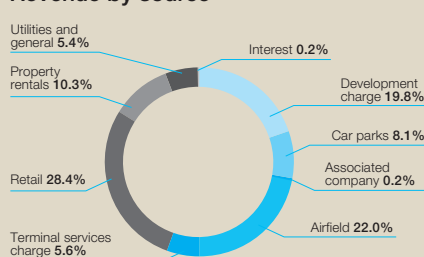
Total ordinary dividends for the 2006 financial year will amount to 8.20 cents per share (equivalent to last year) or \$100.098 million in total. This equates to a dividend payout ratio of 97 per cent, compared with 95 per cent last year. The formal dividend payout policy remains at 90 per cent. However, the directors will consider the payment of ordinary dividends above this level, subject to the company's cash flow requirements and outlook at the time, and the availability of imputation credits.

The final dividend of 4.45 cents per share will be paid on 20 October 2006 to shareholders on the register at the close of business on 13 October 2006. The dividend will carry full imputation credits. In addition, the normal supplementary dividend, sourced from corresponding tax credits available to the company, will be paid to non-resident shareholders.

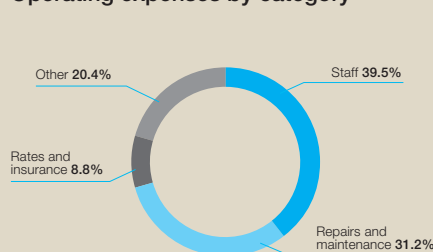
Operating expenses

	2006 \$m	2005 \$m	% change
Staff	25.950	24.024	8.0
Repairs and maintenance	20.500	18.469	11.0
Rates and insurance	5.793	5.482	5.7
Other	13.410	13.232	1.3
Total operating expenses	65.653	61.207	7.3

Revenue by source



Operating expenses by category



Financial report CONTINUED

Cash flow

Net cash flow from operating activities was \$137.395 million, an increase of \$6.359 million (4.9 per cent) over 2005. This was mainly the result of increases in the company's principal revenue lines offset by the increased interest payments. Payments to suppliers and employees and tax payments were broadly the same as they were the previous year.

Net cash outflow from investing activities was \$106.324 million, a decrease of \$6.742 million (6.0 per cent) over 2005. This primarily resulted from a decrease in the company's capital expenditure programme compared to last year.

Cash flow

	2006 \$m	2005 \$m	% change
Net cash flow from operating activities	137.395	131.036	4.9
Net cash flow from investing activities	(106.324)	(113.066)	-6.0
Net cash flow from financing activities	(31.257)	(17.725)	76.3
Net (decrease)/increase in cash held	(0.186)	0.245	-175.9

Net cash outflow from financing activities was \$31.257 million, an increase of \$13.532 million (76.3 per cent), and mainly resulted from an increase in dividend payments offset by an increase in borrowings.

Balance sheet

In accordance with applicable mandatory financial reporting requirements, the company undertook a comprehensive revaluation of its property, plant and equipment, and investment properties as at 30 June 2006. The last revaluation of property and plant and equipment occurred in 2002. Investment properties are valued annually. In addition to complying with existing financial reporting requirements, the asset revaluation was undertaken to establish asset values as at 1 July 2006 for AIAL's opening balance sheet under New Zealand equivalents to International Financial Reporting Standards. Updated asset values are also an important input into the aeronautical pricing consultation process, although there are many other important factors to be taken into account when determining appropriate aeronautical pricing.

The revaluation covered reclaimed land and seawalls, runway, taxiways and aprons, specialised buildings (terminals), land and other land assets, commercial properties, lessor's interest in land assets, investment properties, car parking assets and retail assets. AIAL appointed Opus International Consultants Limited and Seagar & Partners (Auckland) Limited to undertake the independent valuations.

Balance sheet

As at 30 June

	2006 \$m	2005 \$m	% change
Non-current assets	2,730.995	1,261.633	116.5
Current assets	26.866	18.311	46.7
Total assets	2,757.861	1,279.944	115.5
Non-current liabilities	601.767	402.514	49.5
Current liabilities	300.992	419.881	-28.3
Shareholders' equity	1,855.102	457.549	305.4
Total equity and liabilities	2,757.861	1,279.944	115.5

Based on the increases in land values, construction costs and raw materials, the asset revaluation resulted in a significant increase in the value of AIAL's property, plant and equipment. In addition, a discounted cash flow valuation of the company's terminal retail assets was adopted in AIAL's financial statements. Details of the valuation increases were announced on 24 July 2006.

Following the asset revaluation, the company's balance sheet has significantly improved. As at 30 June 2006, total assets amounted to \$2,757.861 million, an increase of \$1,477.917 million (115.5 per cent) over the previous year. The increase was primarily attributable to the

asset revaluation process, along with the company's ongoing capital expenditure programme.

Shareholders' equity was \$1,855.102 million, an increase of \$1,397.553 million (305.4 per cent) over 2005. Again, this largely resulted from the asset revaluation process.

Gearing (measured as debt to debt plus shareholders' equity) decreased to 31.7 per cent, as at 30 June 2006, from 58.4 per cent, as at 30 June 2005. Based on the market value of the company's equity, the gearing is 24.5 per cent. Details of the company's borrowings are set out on the opposite page under financing.

Capital structure and distributions to shareholders

On 30 June 2005, the directors announced that, as a result of a detailed capital structure review, the company would proceed with a distribution to shareholders of up to \$200 million. This included a special dividend of 12 cents per share (total \$146.722 million) paid on 5 August 2005, combined with an on-market share buy-back of up to \$53 million.

To date, \$8.192 million of AIAL's issued ordinary shares (0.3 per cent of its total issued shares) have been repurchased and cancelled. At this stage, the company does not intend to recommence the on-market share buy-back programme in the 2007 year. However, the on-market share buy-back alternative will be reviewed by the board as part of its ongoing approach to capital management, and may be implemented again in the future.

The company's Standard & Poor's long-term credit rating remains A Stable. The short-term credit rating is A-1. This rating is consistent with AIAL's current treasury policy. It reflects the company's continued strong business position, diversified income streams, low-risk profile and prudent levels of gearing.

Capital expenditure

The company invested \$109.545 million during the year, including capitalised interest, in a range of projects to increase capacity and upgrade facilities. 2006 was the second year of an increased capital expenditure programme to develop and expand AIAL's aeronautical facilities and services. In 2005, the company invested \$127.773 million in a range of projects, including runway rehabilitation and widening, 12 new international check-in counters, separation of the international pier, hold stow baggage screening facility, property developments, and various infrastructure assets.

A total sum of \$30.115 million was invested in airfield assets. The main expenditure was \$17.912 million for the last stage of the rehabilitation of the existing runway and for widening the existing runway for the new Airbus 380 aircraft expected in 2008.

Investment of \$42.813 million was made in the international terminal, mainly comprising the completion of the new level on the existing Pier A to separate arriving and departing passengers. \$9.684 million was spent on completing the new baggage hall to provide screening for all bags stowed in aircraft holds.

The company currently expects to invest approximately \$127 million in the 2007 financial year and \$157 million in the 2008 financial year on a range of projects set out in the forecast table on the right. These include the \$100 million expansion of the international terminal arrivals' processing, the renovation and upgrading of the Air New Zealand domestic terminal, the development of a new retail precinct between

Capital expenditure Category	2006 \$m	Key projects
Airfield	30.115	Completion of rehabilitation and A380 widening
International terminal	42.813	Separation of the international pier and hold stow baggage screening facility
Domestic terminal	4.215	Forecourts, commencement of the Air New Zealand domestic terminal renovation, new retail precinct and miscellaneous items
Car parking	16.459	Domestic multi-level facility
Infrastructure and other	9.802	Roading, land subdivision and utilities
Property development	6.141	Fliway Logistics and NZ Van Lines
Total	109.545	

Forecast capital expenditure

Forecast capital expenditure	2007 \$m	2008 \$m
Airfield	9	22
International terminal		
Expanded arrivals	34	38
Pier B	12	32
Expanded departures/retail	6	28
Domestic terminal renovation	21	5
Car parking	1	–
Infrastructure and other	22	10
Property development	22	22
Total capital expenditure	127	157

the two domestic terminals and, subject to board approval, an expanded departures and retail area at the international terminal. Details of the key projects in 2006 are set out in the chief executive officer's report, and are summarised in the table above.

In 2008, the company expects to complete the major terminal expansion projects. In 2009,

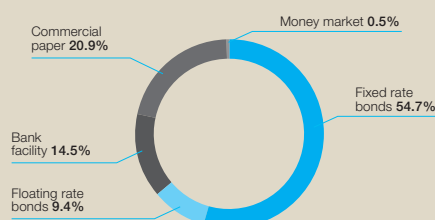
capital expenditure is anticipated to significantly reduce to around \$50 million to \$70 million (excluding property developments). At that stage, the company will have significantly enhanced the airfield and terminal facilities, with the improvements in processing capacity expected to last for the following three to five years.

Financing

As at 30 June 2006, the company's total borrowings were \$860.617 million, an increase of \$220.4 million (34.4 per cent) over the previous year. Short-term borrowings with a maturity of one year or less accounted for \$259.808 million (30.2 per cent) of this amount. The balance of \$600.809 million (69.8 per cent) comprised senior bonds, bank facilities and other instruments with maturities from one to 10 years.

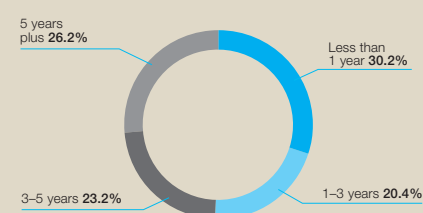
In December 2005, the company established a \$275 million five year term debt and revolving cash advances facility. As at 30 June 2006, \$125 million was drawn down on this facility, with the remaining \$150 million being committed but undrawn.

Borrowings by category



The company's borrowings also include commercial paper, totalling \$180.000 million as at 30 June 2006, and floating and fixed rate bonds totalling \$551.417 million, as at 30 June 2006. The commercial paper programme is supported by a \$100 million stand-by facility. The company

Borrowings by maturity profile



utilises the commercial paper programme and uncommitted money market lines for its working capital requirements. Further details with respect to the company's borrowings are set out in note 14 of the financial statements.

Financial report CONTINUED

The company manages its exposure to financial risk on a prudent basis. This is achieved by spreading borrowings over different roll-over and maturity dates, and entering into financial instruments such as interest rate swaps and forward rate agreements, in each case in accordance with defined treasury policy parameters.

Measures have been adopted to extend the maturity profile, diversify the funding sources, increase committed but undrawn funding lines, and reduce the impact of interest rate fluctuations as the company's borrowings increase.

The company has no material foreign currency exposure as almost all of its transactions are in New Zealand dollars.

As already noted, the company has a long-term credit rating from Standard & Poor's of A Stable and a short-term rating of A-1. The long-term rating was reduced 'one notch' following the announcement of the distribution to shareholders on 30 June 2005.

Key performance indicators

The company actively monitors a range of key performance indicators which include both financial and operating ratios. The key ratios are set out in the table on the right.

The EBITDA margin, which is a measure of the company's operating efficiency, increased again last year as the company's revenue grew at a higher rate than did its operating expenses. This is also demonstrated by the ratios relating to the company's operating efficiencies, which show increases in both operating revenue per operating staff member and operating revenue per passenger. Retail revenue per international passenger materially increased for the reasons set out on page 38 under financial performance – retail. There was also a small increase in the car park revenue per passenger.

The company's financial position, gearing and interest coverage ratios remained largely stable throughout the year following the capital restructuring undertaken at the outset of the year. The interest coverage ratios declined compared with 2005 as a result of additional interest costs associated with funding this capital restructuring and the company's capital expenditure programme.

Key performance indicators

	2006	2005	% change
Financial performance			
EBITDA margin	78.5%	78.4%	0.2
Return on total assets	3.7%	8.3%	-54.7
Earnings per share (cps)	8.44	8.65	-2.4
Financial position and gearing			
Debt/Debt + equity	31.7%	58.4%	-45.7
Debt/EBITDA	3.6	2.9	23.8
EBITDA interest cover	4.2	5.7	-27.6
EBIT interest cover	3.5	4.9	-28.9
Operating efficiencies			
Passengers per operating staff	41,218	39,774	3.6
Operating revenue per operating staff	\$1,100,051	\$999,028	10.1
Operating revenue per passenger	\$26.69	\$25.12	6.3
Retail revenue per international passenger	\$13.34	\$13.17	1.3
Car park revenue per passenger	\$2.22	\$2.14	4.2
Operating staff costs/operating revenue	8.5%	8.5%	0.0


International financial reporting standards

The company will adopt New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) in the preparation of its financial statements for the year ended 30 June 2008. When complying with NZ IFRS for the first time, comparative figures for the year ended 30 June 2007 will be required.

A project team has been established to plan and implement the company's transition to NZ IFRS, subject to policy determinations by the board. To date the project team has completed a detailed technical evaluation of NZ IFRS standards, and has identified NZ IFRS accounting policies. The project team has commenced work on system changes to capture additional information. The project is being

managed internally with assistance and expertise provided by Ernst & Young.

The key areas in which the company is expected to be impacted by the transition to NZ IFRS are summarised in the notes to the financial statements.



Don Huse
Chief executive officer
24 August 2006



Robert Sinclair
Chief financial officer
24 August 2006

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Statement of financial performance

FOR THE YEAR ENDED 30 JUNE 2006

	Notes	GROUP		PARENT	
		2006 \$000	2005 \$000	2006 \$000	2005 \$000
Operating revenue					
Airfield income		67,351	66,280	67,351	66,280
Development charge		60,405	49,531	60,405	49,531
Terminal services charge		17,274	13,866	17,274	13,866
Retail income		86,712	84,681	86,712	84,681
Rental income		31,502	29,243	31,658	29,401
Rates recoveries		2,285	2,096	2,306	2,122
Car park income		24,847	23,396	24,847	23,396
Interest income		517	144	517	144
Other		14,921	13,488	12,839	11,372
Total revenue	6	305,814	282,725	303,909	280,793
Expenses					
Staff		25,950	24,024	25,465	23,536
Repairs and maintenance		20,500	18,469	19,222	17,511
Rates and insurance		5,793	5,482	5,791	5,477
Other		13,410	13,232	13,285	12,941
Total operating expenses	3	65,653	61,207	63,763	59,465
Earnings before interest, taxation and depreciation (EBITDA)		240,161	221,518	240,146	221,328
Depreciation and impairment expenses	3	38,546	31,895	38,349	31,461
Earnings before interest and taxation (EBIT)		201,615	189,623	201,797	189,867
Interest expense	3	54,911	36,229	54,911	36,230
Surplus before taxation		146,704	153,394	146,886	153,637
Taxation expense	4	43,549	47,753	43,612	47,749
Surplus after taxation	6	103,155	105,641	103,274	105,888

The notes and accounting policies on pages 48 to 67 form part of and are to be read in conjunction with these financial statements.

Statement of movements in equity

FOR THE YEAR ENDED 30 JUNE 2006

	Notes	GROUP		PARENT	
		2006 \$000	2005 \$000	2006 \$000	2005 \$000
Total recognised revenues and expenses					
Net surplus for the year		103,155	105,641	103,274	105,888
Increase in value of property, plant and equipment	18	1,385,718	–	1,385,718	–
Increase in value of investment properties	19	13,615	10,707	13,615	10,707
		1,502,488	116,348	1,502,607	116,595
Contribution from owners					
Increase in share capital	12	3,485	3,554	3,485	3,554
		3,485	3,554	3,485	3,554
Distributions to owners					
Ordinary dividends paid	7	(100,228)	(98,596)	(100,228)	(98,596)
Special dividends to be paid	7	–	(146,722)	–	(146,722)
Buy-back of shares	12	(8,192)	–	(8,192)	–
		(108,420)	(245,318)	(108,420)	(245,318)
Movements in equity for the year		1,397,553	(125,416)	1,397,672	(125,169)
Equity at beginning of year		457,549	582,965	457,796	582,965
Equity at end of year		1,855,102	457,549	1,855,468	457,796

The notes and accounting policies on pages 48 to 67 form part of and are to be read in conjunction with these financial statements.

Statement of financial position

AS AT 30 JUNE 2006

	Notes	GROUP		PARENT	
		2006 \$000	2005 \$000	2006 \$000	2005 \$000
Non-current assets					
Property, plant and equipment	8	2,533,430	1,083,394	2,533,430	1,083,394
Investment properties	9	193,502	175,439	193,502	175,439
Investment in subsidiary and associated company	5	2,988	2,800	3,705	3,517
Other non-current assets		1,075	–	1,075	–
		2,730,995	1,261,633	2,731,712	1,262,350
Current assets					
Bank	10	324	510	–	128
Inventories		100	110	100	108
Prepayments		3,616	3,705	3,616	3,704
Accounts receivable	11	11,935	10,929	11,687	10,597
Taxation receivable		10,891	3,057	10,823	3,057
		26,866	18,311	26,226	17,594
Total assets		2,757,861	1,279,944	2,757,938	1,279,944
Shareholders' equity					
Issued and paid-up capital	12	166,910	163,940	166,910	163,940
Cancelled share reserve	13	(161,304)	(153,627)	(161,304)	(153,627)
Retained earnings		(25,387)	(28,314)	(25,021)	(28,067)
Property, plant and equipment revaluation reserve	18	1,808,241	422,523	1,808,241	422,523
Investment property revaluation reserve	19	66,642	53,027	66,642	53,027
		1,855,102	457,549	1,855,468	457,796
Non-current liabilities					
Term borrowings	14	600,809	401,417	600,809	401,417
Other term liabilities		958	1,097	958	1,096
		601,767	402,514	601,767	402,513
Current liabilities					
Bank overdraft	10	–	–	125	–
Accounts payable	15	38,290	34,359	37,876	34,113
Short-term borrowings	14	259,808	238,800	259,808	238,800
Provision for special dividend	7	–	146,722	–	146,722
Provision for noise mitigation	22	2,894	–	2,894	–
		300,992	419,881	300,703	419,635
Total equity and liabilities		2,757,861	1,279,944	2,757,938	1,279,944

The notes and accounting policies on pages 48 to 67 form part of and are to be read in conjunction with these financial statements.

These financial statements were approved and adopted by the board on 24 August 2006.

Signed on behalf of the board by:



Wayne Boyd
Director, chairman of the board



Anthony Frankham
Director, chairman of the audit and risk management committee

Statement of cash flows

FOR THE YEAR ENDED 30 JUNE 2006

	Notes	GROUP		PARENT	
		2006 \$000	2005 \$000	2006 \$000	2005 \$000
Cash flow from operating activities					
Cash was provided from:					
Receipts from customers		300,580	281,137	298,527	279,600
Interest received		517	144	580	144
Dividends from associated companies	5	500	500	500	500
		301,597	281,781	299,607	280,244
Cash was applied to:					
Payments to suppliers and employees		(60,727)	(60,247)	(58,779)	(58,821)
Income tax paid		(51,383)	(51,427)	(51,378)	(51,423)
Other taxes paid		(496)	(514)	(485)	(505)
Interest paid		(51,596)	(38,557)	(51,596)	(38,557)
		(164,202)	(150,745)	(162,238)	(149,306)
Net cash flow from operating activities	16	137,395	131,036	137,369	130,938
Cash flow from investing activities					
Cash was provided from:					
Proceeds from sale of assets		2,983	1,402	2,921	1,402
		2,983	1,402	2,921	1,402
Cash was applied to:					
Purchase of property, plant and equipment		(101,026)	(105,095)	(101,005)	(104,704)
Expenditure on investment properties		(4,448)	(7,063)	(4,448)	(7,063)
Interest paid – capitalised		(2,758)	(2,310)	(2,758)	(2,310)
Investment in Waste Resources Limited		–	–	–	(675)
Other investing activities		(1,075)	–	(1,075)	–
		(109,307)	(114,468)	(109,286)	(114,752)
Net cash applied to investing activities		(106,324)	(113,066)	(106,365)	(113,350)
Cash flow from financing activities					
Cash was provided from:					
Increase in share capital	12	3,485	3,554	3,485	3,554
Increase in borrowings		1,833,050	835,217	1,833,050	835,217
		1,836,535	838,771	1,836,535	838,771
Cash was applied to:					
Decrease in borrowings		(1,612,650)	(757,900)	(1,612,650)	(757,900)
Dividends paid	7	(246,950)	(98,596)	(246,950)	(98,596)
Buy-back of shares	12	(8,192)	–	(8,192)	–
		(1,867,792)	(856,496)	(1,867,792)	(856,496)
Net cash flow applied to financing activities		(31,257)	(17,725)	(31,257)	(17,725)
Net increase/(decrease) in cash held		(186)	245	(253)	(137)
Opening cash brought forward		510	265	128	265
Ending cash carried forward	10	324	510	(125)	128

The notes and accounting policies on pages 48 to 67 form part of and are to be read in conjunction with these financial statements.

Notes and accounting policies

FOR THE YEAR ENDED 30 JUNE 2006

1 Establishment

Auckland International Airport Limited (the "company") 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 the Auckland International Airport were vested in the company on 1 April 1988 and 13 November 1998 by an Order in Council of the New Zealand Government. An application has been made for vesting of the areas reclaimed since incorporation. The company commenced trading on 1 April 1988. The company was re-registered under the Companies Act 1993 on 6 June 1997.

2 Statement of accounting policies

These financial statements are presented as required by the Companies Act 1993 and have been prepared in accordance with the Financial Reporting Act 1993.

Basis of preparation

The financial statements are prepared on the basis of historical cost, except that investment properties, land and buildings, runway, taxiways and aprons and infrastructural assets are stated at valuation.

Specific accounting policies

The following specific accounting policies which materially affect the measurement of financial performance and financial position have been applied.

(i) Accounting for subsidiaries and associates

Subsidiaries are those entities controlled, directly or indirectly, by the company. The financial statements of subsidiaries are included in the group financial statements using the purchase method of consolidation. In preparing the consolidated financial statements the effects of all transactions between the entities have been eliminated. Where an entity becomes or ceases to be part of the group during the year, the results of that entity are included in the group financial statements from the date of acquisition or up to the date of disposal.

The equity method of accounting has been used for associated companies in which there are significant, but not controlling interests.

The share of the net surplus of associates belonging to the company and the group is recognised as a component of operating revenue in the statement of financial performance. The company and group recognises its share of other post-acquisition movements in reserves in its statement of movements in equity. In the statement of financial position the investment and the reserves are increased by the group's share of the post-acquisition retained surplus and other post-acquisition reserves of the associate. Dividends received from associates are credited to the carrying amount of the investment in associates.

(ii) Property, plant and equipment

Property, plant and equipment are initially stated at cost and depreciated as outlined below. The cost of property, plant and equipment includes all costs directly attributable to bringing the item to working condition for its intended use.

Borrowing costs that are directly attributable to the acquisition or construction of property, plant and equipment are capitalised. Costs cease to be capitalised when substantially all the activities necessary to bring an asset to the location and condition for its intended use are complete.

It is the company's policy to revalue land and buildings, runway, taxiways and aprons and infrastructural assets to fair value as determined by an independent valuer. Revaluations are carried out on a cyclical basis at least every five years. When applied, revaluations are undertaken for all assets of a particular class.

Any increase in value of a class of revalued assets is recognised directly in equity unless it reverses a previous decrease in value which had been recognised in the statement of financial performance, in which case it is recognised in the statement of financial performance. Any decrease in value relating to a class of revalued assets is recognised in equity unless it exceeds any previous revaluation, in which case it is recognised in the statement of financial performance.

Property, plant and equipment under construction are stated at cost.

Where the directors have assessed that an asset is impaired and the recoverable amount of the asset is lower than the asset's carrying amount the company writes down the asset to its recoverable amount. The impairment loss is recognised in the statement of financial performance. If any previously recognised impairment loss no longer exists then the company increases the value of the asset to its recoverable amount, provided that the increased carrying amount of the item is not greater than the carrying amount that would have been determined if the write-down to the recoverable amount had not occurred. The reversal of any impairment loss is recognised in the statement of financial performance.

Where an asset is disposed of, the gain or loss recognised in the statement of financial performance is calculated as the difference between the net sale price and the carrying amount of the asset.

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	5–33 years
• Infrastructural assets	5–50 years
• Runway, taxiways and aprons	16–40 years
• Vehicles, plant and equipment	3–10 years

(iii) Investment properties

The directors have identified that certain commercial properties owned by the company are held primarily for the purposes of obtaining the benefits of rental income. The directors have determined that these properties should be treated as investment properties.

Investment properties are stated at net current value, as determined every year by an independent valuer. The basis of valuation is market value less the estimated cost of disposal, based on each property's highest and best use. Any increase on revaluation is recognised directly in equity unless it reverses a previous decrease in value recognised in the statement of financial performance, in which case it is recognised in the statement of financial performance. A decrease in the revaluation is recognised in equity unless the total of the investment property revaluation reserve is insufficient in which case it is recognised in the statement of financial performance.

Investment properties under construction are stated at cost.

Investment properties are not depreciated for financial accounting purposes.

(iv) Bank and marketable securities

These are recorded at the lower of cost and net realisable value.

(v) Accounts receivable

Receivables are stated at their estimated realisable value.

(vi) Taxation

The income tax expense charged to the statement of financial performance is calculated after allowing for non-assessable income and non-deductible costs.

Deferred taxation is determined on a partial basis using the liability method.

A deferred tax liability is recognised to the extent that it can be foreseen to crystallise in the future. Any deferred tax asset attributable to timing differences or losses carried forward is recognised in the financial statements only where there is virtual certainty that the benefit of timing differences or losses will crystallise in the foreseeable future.

(vii) Financial instruments

Financial instruments in the statement of financial position include bank, investments, receivables, trade payables and borrowings. The particular recognition methods adopted are disclosed in the individual policy statement associated with each item.

The company uses interest rate swaps, forward rate agreements and options to manage interest rate risk. The net differential, paid or received, on financial instruments is recognised as a component of interest expense or interest revenue over the period of the agreement. Net settlements on forward rate agreements are amortised to the statement of financial performance over the life of the hedged item or the period hedged.

(viii) Provision for noise mitigation

The company is required to offer acoustic treatment to certain houses and schools when predicted noise levels in the next

12 months are at defined levels. The company has an obligation to fund the acoustic treatment of homes or schools when the offer of acoustic treatment is accepted. On acceptance of offers the company 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 the second runway, the costs are capitalised to the extent that they are not recoverable from other parties.

(ix) Foreign currency

Transactions denominated in foreign currency are converted to New Zealand dollars at the exchange rates in effect at the date of the transaction.

Monetary items receivable or payable in a foreign currency, other than those resulting from short-term transactions covered by forward exchange contracts, are translated at balance date at the closing rate. Exchange differences on foreign currency balances are recognised in the statement of financial performance. For short-term transactions covered by forward exchange contracts, the rates specified in those contracts are used as the basis for measuring and reporting the transactions.

(x) Statement of cash flows

The following explains the terms used in the statement of cash flows:

- (a) Cash is considered to be cash on hand and current accounts in banks, net of bank overdrafts.
- (b) Operating activities include cash receipts and payments made for the supply of goods and services that are not investing or financing activities.
- (c) Investing activities are those activities relating to acquisition and disposal of current and non-current investments and any other non-current assets.
- (d) Financing activities include activities that change the equity and debt capital structure. Dividends paid in relation to the capital structure are included in financing activities.

(xi) Goods and Services Tax (GST)

The statement of financial performance and statement of cash flows have been prepared so that all components are stated exclusive of GST. All items in the statement of financial position are stated exclusive of GST, with the exception of receivables and payables which include GST.

(xii) Inventories

All inventories are valued at the lower of cost and net realisable value. Cost is calculated on weighted average cost basis.

(xiii) Changes in accounting policies

All accounting policies have been applied on a basis consistent with those reported in previous periods.

(xiv) Changes in comparatives

Where applicable, certain comparatives have been re-stated to comply with the accounting presentation adopted for the current period.

Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2006

3 Expenses

	GROUP		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Operating expenses include:				
Audit fees	145	122	145	122
Auditor's other attestation fees	46	54	46	54
Auditor's other compliance fees	164	110	155	105
Directors' fees	482	530	482	530
Donations	23	12	23	12
Doubtful debts written off	43	24	43	22
Doubtful debts – change in provision	40	132	40	132
Loss on disposal of property, plant and equipment	1,452	672	1,459	672
Depreciation and impairment expenses:				
Depreciation by asset class:				
Buildings and services	21,455	17,650	21,455	17,650
Infrastructure	7,434	5,964	7,432	5,962
Runway, taxiways and aprons	5,200	5,170	5,200	5,170
Vehicles, plant and equipment	4,457	3,401	4,262	3,199
Total depreciation by asset class	38,546	32,185	38,349	31,981
Incinerator (write back)/impairment	–	(290)	–	(520)
	38,546	31,895	38,349	31,461

The incinerator impairment reversal in 2005 revalued the incineration plant at its estimated recoverable amount after allowing for the planned discontinuance of the incineration operations of Waste Resources Limited.

Interest expense comprises:

Interest on borrowings	57,669	38,539	57,669	38,540
Interest capitalised	(2,758)	(2,310)	(2,758)	(2,310)
	54,911	36,229	54,911	36,230

4 Taxation

	GROUP		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
(a) Taxation expense				
Surplus before taxation	146,704	153,394	146,886	153,637
Prima facie taxation at 33 per cent	48,412	50,620	48,472	50,700
Adjustments:				
Taxation effect of permanent differences	566	548	592	348
Taxation effect of losses not previously recognised	-	(126)	-	-
Taxation effect of share of associates' tax paid earnings	(227)	(278)	(227)	(278)
Taxation effect of timing differences not recognised	(3,879)	(2,109)	(3,902)	(2,119)
Taxation adjustment relating to previous years	(1,077)	(656)	(1,077)	(656)
Imputation credits	(246)	(246)	(246)	(246)
Taxation expense	43,549	47,753	43,612	47,749

Total unrecognised deferred tax liability at balance date is \$23.715 million for the parent (2005: \$18.761 million) and \$23.799 million for the group (2005: \$18.741 million).

Included in the unrecognised deferred tax liability is the tax effect of the revaluation of assets, which may crystallise if the assets were sold at the revalued carrying amounts. This liability, and the tax effects on timing differences that are unlikely to crystallise in the foreseeable future, have not been recognised.

(b) Imputation credits

Balance at beginning of year	45,517	41,823	45,517	41,823
Income tax paid	44,853	46,201	44,848	46,201
Credits attached to dividends paid	(42,706)	(42,753)	(42,706)	(42,753)
Credits attached to dividends received	246	246	246	246
Balance at end of year	47,910	45,517	47,905	45,517

Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2006

5 Subsidiary and associated company

	Holding Amount	
	2006 %	2005 %
HMSC-AIAL Limited	50	50
Waste Resources Limited	100	100

HMSC-AIAL Limited (50 per cent) – associate

HMSC-AIAL Limited, which operates food and beverage facilities at the international terminal of Auckland International Airport, has a balance date of 31 December. Financial information for HMSC-AIAL Limited has been extracted from audited accounts for the period to 31 December and management accounts for the balance of the year to 30 June. The company received a dividend from HMSC-AIAL Limited during the year of \$0.500 million (2005: \$0.500 million).

Waste Resources Limited (100 per cent) – subsidiary

Waste Resources Limited, which operated the quarantine incinerator operation based at Auckland Airport, has a balance date of 31 December. On 2 August 2004 the company purchased the Tredi NZ Limited 50 per cent share of Waste Resources Limited, not already owned by the company, and also the shareholder loan. Tredi NZ Limited has no further interest in Waste Resources Limited. As set out in note 6, Waste Resources Limited ceased trading on 19 May 2006.

	GROUP		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Investment in subsidiary and associated company				
HMSC-AIAL Limited	2,988	2,800	2,988	2,800
Waste Resources Limited	–	–	717	717
	2,988	2,800	3,705	3,517
Carrying amount of associate company				
Share of surplus of associated company	1,027	1,259	1,027	1,259
Taxation expense	(339)	(415)	(339)	(415)
Share of surplus after tax of associated company	688	844	688	844
Less share of dividends received	(500)	(500)	(500)	(500)
Net addition in equity carrying value	188	344	188	344
Share of associated company's equity at beginning of the year	1,295	641	1,295	641
Transfer to investments in subsidiary upon acquisition of remaining 50 per cent shareholding	–	310	–	310
Total share of increase in associated company's equity since acquisition	1,483	1,295	1,483	1,295
Cost of investment in associated company	1,505	1,505	1,505	1,505
	2,988	2,800	2,988	2,800
Carrying amount of subsidiary company				
Opening cost of investment in subsidiary	–	–	717	352
Opening share of surplus after tax transferred from associate company	–	–	–	(310)
Increase in investment in subsidiary	–	–	–	675
	–	–	717	717

6 Discontinued operations

Waste Resources Limited is a fully owned subsidiary of the company. The company signed an agreement on 14 July 2005 with Medi-Chem Waste Services Limited to replace the incinerator operations of Waste Resources Limited with a state-of-the-art steam sterilisation unit. The sterilisation facility commenced operations on 19 May 2006 and Waste Resources Limited ceased trading at this date. An impairment of the value of non-current assets in Waste Resources Limited was recorded in previous years. It is intended that Waste Resources Limited will be wound up in the latter part of 2007.

	GROUP		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Operating revenue				
Continuing activities	303,909	280,793	303,909	280,793
Discontinued activities	1,905	1,932	–	–
	305,814	282,725	303,909	280,793
Surplus after taxation				
Continuing activities	103,274	105,888	103,274	105,888
Discontinued activities	(119)	(247)	–	–
	103,155	105,641	103,274	105,888

7 Distribution to shareholders

2005 final dividend of 4.450 cents per share (fully imputed) paid on 21 October 2005 (2004: 4.325 cents)	54,442	52,796	54,442	52,796
2006 interim dividend of 3.750 cents per share (fully imputed) paid on 31 March 2006 (2005: 3.750 cents)	45,786	45,800	45,786	45,800
Total distributions (net of supplementary dividends)	100,228	98,596	100,228	98,596
Special dividend of 12.00 cents per share (not imputed) paid on 5 August 2005	–	146,722	–	146,722

The number of issued and paid-up shares as at 30 June 2006 was 1,220,509,639 (2005: 1,222,685,236).

On 8 April 2005 the company completed a four-for-one share split resulting in the number of shares on issue increasing from 305,469,709 to 1,221,878,836. The cents per share figures with respect to the 2004 final dividend and the 2005 interim dividend have been restated to reflect the effect of the four-for-one share split.

On 30 June 2005 the directors announced, as part of a distribution to shareholders, the payment of a special dividend of 12.00 cents per share (not imputed) paid on 5 August 2005.

Supplementary dividends paid of \$6.383 million (2005: \$5.370 million) are not included in the above dividends as the company receives an equivalent tax credit from the Inland Revenue Department.

On 24 August 2006, the directors approved the payment of a 2006 fully imputed final dividend of \$54.313 million (4.45 cents per share) to be paid on 20 October 2006.

Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2006

8 Property, plant and equipment

	GROUP		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Land				
At valuation	1,645,040	461,796	1,645,040	461,796
At cost	-	1,072	-	1,072
Reclassification to investment properties	-	(4,848)	-	(4,848)
Work in progress at cost	579	176	579	176
	1,645,619	458,196	1,645,619	458,196
Buildings and services				
At valuation	409,892	284,163	409,892	284,163
At cost	-	31,368	-	31,368
Work in progress at cost	15,500	47,386	15,500	47,386
Accumulated depreciation	-	(52,671)	-	(52,671)
	425,392	310,246	425,392	310,246
Infrastructure				
At valuation	190,264	117,858	190,264	117,858
At cost	-	21,397	-	21,397
Work in progress at cost	5,478	1,577	5,478	1,577
Accumulated depreciation	-	(16,984)	-	(16,984)
	195,742	123,848	195,742	123,848
Runway, taxiways and aprons				
At valuation	251,961	115,741	251,961	115,741
At cost	-	79,320	-	79,320
Work in progress at cost	2,894	-	2,894	-
Accumulated depreciation	-	(13,359)	-	(13,359)
	254,855	181,702	254,855	181,702
Vehicles, plant and equipment				
At cost	39,567	35,346	39,567	35,346
Work in progress at cost	671	365	671	365
Accumulated depreciation	(28,416)	(26,309)	(28,416)	(26,309)
	11,822	9,402	11,822	9,402
Total property, plant and equipment	2,533,430	1,083,394	2,533,430	1,083,394

Asset valuation

Land and commercial properties were independently valued by Seagar & Partners (Auckland) Limited, registered valuers, as at 30 June 2006 to fair value. Reclaimed land, seawalls, specialised buildings, infrastructure, site improvements on commercial properties and car park facilities were independently valued by Opus International Consultants Limited, a multi-disciplinary engineering consultancy company, as at 30 June 2006 to fair value.

Where the fair value of an asset is able to be determined by reference to market based evidence, such as sales of comparable assets or discounted cash flows, 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, optimised depreciated replacement cost is considered to be the most appropriate basis for determination of fair value.

To arrive at fair value the valuers have applied different approaches for different asset groups. The following table summarises the valuation approach.

Asset classification and description	Valuation approach	Valuer
Land		
Airfield land, including land for runway, taxiways, aprons and approaches	Direct sales comparison plus development and holding costs to achieve land suitable for airport use	Seagar & Partners (Auckland) Limited
Reclaimed land and seawalls	Optimised depreciated replacement cost	Opus International Consultants Limited
Aeronautical land, including land associated with aircraft, freight and terminal uses	Direct sales comparison	Seagar & Partners (Auckland) Limited
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	Seagar & Partners (Auckland) Limited
Land associated with retail facilities within terminal buildings	Discounted cash flow	Seagar & Partners (Auckland) Limited
Lessor's interest in land	Discounted cash flow	Seagar & Partners (Auckland) Limited
Land associated with commercial property	Direct capitalisation of rental income and discounted cash flow	Seagar & Partners (Auckland) Limited
Other land	Direct sales comparison	Seagar & Partners (Auckland) Limited
Buildings and services		
Specialised buildings and services including terminals	Optimised depreciated replacement cost	Opus International Consultants Limited
Car park buildings and other improvements	Optimised depreciated replacement cost	Opus International Consultants Limited
Buildings and services associated with commercial property	Direct capitalisation of rental income and discounted cash flow	Seagar & Partners (Auckland) Limited
Infrastructure		
Infrastructure assets associated with commercial property	Direct capitalisation of rental income and discounted cash flow	Seagar & Partners (Auckland) Limited
Infrastructure assets associated with car park buildings and other improvements	Optimised depreciated replacement cost	Opus International Consultants Limited
Other infrastructure assets	Optimised depreciated replacement cost	Opus International Consultants Limited
Runway, taxiways and aprons		
Runway, taxiways and aprons	Optimised depreciated replacement cost	Opus International Consultants Limited

The valuation approaches used are consistent with the methodologies used in the last revaluation in 2002 except for the land associated with retail facilities within terminal buildings. The 2006 revaluation, for this class of asset, has been determined using a discounted cash flow methodology compared with a direct sales comparison approach in 2002. The result of this change in methodology is an increase in the fair value of the land associated with retail facilities within terminal buildings of \$684.157 million.

Additions for the year ended 30 June 2006 include capitalised interest of \$2.758 million (2005: \$2.310 million).

Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2006

9 Investment properties

	GROUP		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Investment properties at valuation	189,577	172,767	189,577	172,767
Investment properties under construction at cost	3,925	2,672	3,925	2,672
	193,502	175,439	193,502	175,439

The identified investment properties were valued as at year-end by Seagar & Partners (Auckland) Limited, registered valuers. The basis of valuation was market value less the estimated costs of disposal, based on each property's highest and best use. The valuation methodology used was a direct capitalisation of rental income using market comparisons of capitalisation rates, supported by a discounted cash flow approach. The valuation methodology is consistent with the prior year.

The valuation resulted in an increased market value over book value of \$13.615 million (2005: \$10.707 million) which has been recorded as an increase in the investment property revaluation reserve.

10 Bank balances

Cash and bank balances	324	510	(125)	128
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During the year surplus funds were deposited on the New Zealand money market at rates of 6.75 per cent – 7.25 per cent.

11 Accounts receivable

Receivables	12,275	11,229	12,027	10,897
Less: provision for doubtful debts	(340)	(300)	(340)	(300)
	11,935	10,929	11,687	10,597

12 Issued and paid-up capital

Issued and paid-up capital at the beginning of the year	163,940	160,386	163,940	160,386
Add: options exercised and shares issued during the year	3,485	3,554	3,485	3,554
Less: buy-back of shares during the year	(515)	–	(515)	–
Total share capital	166,910	163,940	166,910	163,940

The number of issued and paid-up shares as at 30 June 2006 was 1,220,509,639 (2005: 1,222,685,236).

On 8 April 2005, the company completed a four-for-one share split resulting in the number of shares on issue increasing from 305,469,709 to 1,221,878,836. All shares rank equally.

Options have been exercised pursuant to the Executive Share Option Plan. Details of these options are disclosed in note 25.

On 30 June 2005 the company announced that it would undertake an on-market buy-back of its ordinary shares over a 12 month period. During the year to 30 June 2006 the company purchased a total of 4,119,597 ordinary shares at a total cost of \$8.192 million. All of the shares acquired under the buy-back have been cancelled. The total buy-back cost of \$8.192 million was applied against issued and paid-up capital for \$0.515 million, representing the estimated share capital attributable to the shares purchased, and the balance of \$7.677 million against the cancelled share reserve.

13 General reserves

	GROUP		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Cancelled share reserve at the beginning of the year	(153,627)	(153,627)	(153,627)	(153,627)
Buy-back of shares during the year	(7,677)	–	(7,677)	–
	(161,304)	(153,627)	(161,304)	(153,627)

On 25 October 2002, the company returned capital to shareholders and cancelled seven shares in every 25 shares held by the shareholders.

The return of capital of \$212.714 million was applied against share capital at \$0.50 per share cancelled, amounting to \$59.087 million and the balance of \$153.627 million applied to the cancelled share reserve.

Details of the share buy-back are disclosed in note 12. The buy-back of \$8.192 million was applied against issued and paid-up capital and the cancelled share reserve.

14 Borrowings

At balance date the following borrowing facilities were in place for the parent and the group:

	Coupon	2006 \$000	2005 \$000
Term borrowings			
Bonds maturing 15 November 2006	8.00%	–	32,223
Bonds maturing 15 November 2006	6.50%	–	34,485
Bonds maturing 15 November 2006	Floating	–	8,900
Bonds maturing 16 July 2007	7.50%	26,304	26,304
Bonds maturing 16 July 2007	6.53%	15,080	15,080
Bonds maturing 16 July 2007	Floating	59,000	59,000
Bonds maturing 15 November 2008	7.50%	37,155	37,155
Bonds maturing 15 November 2008	6.64%	38,270	38,270
Bonds maturing 29 July 2009	6.67%	66,900	66,900
Bonds maturing 29 July 2009	Floating	8,100	8,100
Bonds maturing 29 July 2011	6.83%	70,000	70,000
Bonds maturing 29 July 2011	Floating	5,000	5,000
Bonds maturing 7 November 2012	7.19%	50,000	–
Bonds maturing 7 November 2015	7.25%	100,000	–
Bank facility	Floating	125,000	–
		600,809	401,417
Short-term borrowings			
Bonds maturing 15 November 2006	8.00%	32,223	–
Bonds maturing 15 November 2006	6.50%	34,485	–
Bonds maturing 15 November 2006	Floating	8,900	–
Commercial paper maturing within 3 months	Floating	180,000	220,000
Money market	Floating	4,200	18,800
		259,808	238,800
Total borrowings		860,617	640,217

The company utilises a mixture of term bonds and commercial paper to provide its ongoing debt requirements. It routinely rolls over maturing bonds and commercial paper at maturity. The company is confident that short-term borrowings will be refinanced at maturity.

In July 2004 the company issued a total of \$200 million of fixed and floating rate bonds to retail and institutional investors in New Zealand.

Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2006

14 Borrowings CONTINUED

In January 2005 the company renewed its commercial paper programme such that the facility now has no maximum programme amount. Previously the facility had a limit of \$250 million. In addition, a \$100 million stand-by facility acts as a liquidity support for the commercial paper facility. This stand-by facility is underwritten by Bank of New Zealand.

In November 2005 the company issued \$150 million of seven and 10 year fixed rate bonds to retail and institutional investors in New Zealand.

In December 2005 the company established a \$275 million, five year, bank facility with Commonwealth Bank of Australia. The facility contains a term debt facility of \$100 million and a revolving cash advances facility of up to \$175 million.

Borrowings under the bond programme, bank facility, commercial paper and stand-by facilities are supported by a negative pledge deed.

Bond floating rates are based on the 90 day bank bill rate plus a margin of 15 to 32 basis points. During the year ended 30 June 2006 the range of interest rates has been between 7.18 per cent and 8.06 per cent (2005: 5.96 per cent and 7.40 per cent). Commercial paper rates are set through a tender process and during the year ended 30 June 2006 the range of interest rates has been between 7.01 per cent and 7.67 per cent (2005: 6.44 per cent and 7.08 per cent). The money market rates are based on the Official Cash Rate set by the Reserve Bank of New Zealand. During the year ended 30 June 2006 the range of interest rates on the money market has been between 6.80 per cent and 7.30 per cent (2005: 5.79 per cent and 6.80 per cent).

15 Accounts payable

	GROUP		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Employee entitlements	5,096	4,372	5,096	4,330
GST payable	1,543	943	1,547	938
Property, plant and equipment retentions and payables	17,163	15,829	17,163	15,829
Trade payables	569	635	446	632
Other payables and accruals	13,919	12,580	13,624	12,384
	38,290	34,359	37,876	34,113

16 Reconciliation of surplus after taxation with cash flow from operating activities

Surplus after taxation	103,155	105,641	103,274	105,888
Non-cash items:				
Depreciation and impairment expenses	38,546	31,895	38,349	31,461
Bad and doubtful debts	83	156	83	156
Equity accounted earnings from associates	(188)	(344)	(188)	(344)
Items not classified as operating activities:				
Asset disposals	(497)	(630)	(490)	(630)
(Increase)/decrease in property, plant and equipment retentions and payables	(1,566)	(13,035)	(1,334)	(13,035)
Increase/(decrease) in employee share purchase loan	(130)	(149)	(130)	(149)
Movement in working capital:				
(Increase)/decrease in current assets	(992)	(1,076)	(1,078)	(742)
(Increase)/decrease in taxation receivable	(7,834)	(3,057)	(7,766)	(3,057)
Increase/(decrease) in taxation payable	-	(617)	-	(617)
Increase/(decrease) in accounts payable	6,957	12,567	6,787	12,323
Increase/(decrease) in other term liabilities	(139)	(315)	(138)	(316)
Net cash flow from operating activities	137,395	131,036	137,369	130,938

17 Financial instruments

Interest rate and credit management

The company has a treasury risk management policy which limits exposure to interest rate and counter-party credit risk.

Interest rate risk

The company's policy is to manage its interest rate risk. At year-end 53 per cent (2005: 44 per cent) of the borrowings (including the effects of the derivative financial instruments below) were subject to fixed interest rates, which are defined as borrowings with an interest reset date greater than one year.

The contract amounts of derivative financial instruments outstanding at balance date were:

	GROUP		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Interest rate swaps	543,000	573,000	543,000	573,000
Forward rate agreements	60,000	290,000	60,000	290,000

Foreign currency risk

At balance date the company had no direct foreign currency exposure.

Credit risk

Cash deposits and marketable securities are restricted by the amount which 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 company minimises its credit risk by spreading such exposures across a range of institutions.

Accounts receivable principally comprise amounts due from airlines, tenants and licensees. The company 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 prudently required. The value of performance bonds for the group is \$0.958 million (2005: \$1.097 million). There are no significant concentrations of credit risk.

Fair value

Bank, investments, receivables, trade payables, bank facility and commercial paper:

The carrying value of these items is equivalent to their fair value and therefore excluded from the table below. The estimated fair values of the remaining financial instruments at balance date for the parent and the group were:

	2006 Carrying value \$000	2006 Fair value \$000	2005 Carrying value \$000	2005 Fair value \$000
Interest rate swaps	–	2,132	–	3,681
Forward rate agreements	–	(8)	–	(307)
Bonds	551,417	562,055	401,417	411,046

The fair value of the above financial instruments is based on the quoted market prices for these instruments at balance date.

Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2006

18 Property, plant and equipment revaluation reserve

	GROUP		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Balance at beginning of year	422,523	422,523	422,523	422,523
Property, plant and equipment net revaluations	1,385,718	–	1,385,718	–
Balance at end of year	1,808,241	422,523	1,808,241	422,523
By asset class:				
Freehold land	1,476,860	289,181	1,476,860	289,181
Buildings and services	152,365	76,886	152,365	76,886
Infrastructure	93,051	44,412	93,051	44,412
Runway, taxiways and apron	85,965	12,044	85,965	12,044
	1,808,241	422,523	1,808,241	422,523

19 Investment property revaluation reserve

Balance at beginning of year	53,027	42,320	53,027	42,320
Investment properties net revaluations	13,615	10,707	13,615	10,707
Balance at end of year	66,642	53,027	66,642	53,027

20 Capital commitments

Capital commitments entered into but not accrued at balance date were \$42.543 million (2005: \$33.729 million).

These relate to airport development projects.

21 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 first stage is expected to be operational sometime around the year 2010 and will provide a runway of 1,200 metres. This can be increased to 2,150 metres in the future.

As part of the Manukau District Plan, the company will, over time, offer certain acoustic treatment packages to existing homes and schools within defined areas. Approvals for the second runway include a number of obligations on the company to mitigate the impacts of aircraft noise on the local community. An annual contribution of \$0.263 million (relating to the 2006 financial year and inflation adjusted for future years) is made to a noise mitigation trust fund administered by the company and the community for the benefit of the local communities.

Given current predicted noise levels the company will make offers in the 2007 financial year to the owners of a further 750 homes and to Clover Park School, Redoubt North School and South Auckland Seventh Day Adventist School.

Noise levels are monitored continually, and as the noise impact area increases, further offers will need to be made. The obligation does not extend to new houses. Overall, it is estimated that approximately 4,000 homes will eventually be offered assistance.

As it is not possible to accurately predict the rate of increase 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 \$12.0 million. Consistent with established airport economic principles, the company is consulting with the airlines over the means of recovering these costs in a fair and equitable way for all concerned.

There were no other contingent liabilities outstanding at 30 June 2006 (2005: Nil).

22 Provision for noise mitigation

Over March and April 2005, the company made acoustic treatment offers to the owners of 470 existing homes, two pre-schools and to Puhinui School in respect of existing buildings. Those offers have now expired with acceptances received from 46 houses and Puhinui School. A provision for noise mitigation costs has been recorded for the estimated costs of acoustic treatment of these buildings. As directly attributable costs of the second runway the costs have been capitalised.

	GROUP		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Opening balance	–	–	–	–
Provisions made in the period	2,894	–	2,894	–
Expenditure in the period	–	–	–	–
	2,894	–	2,894	–

23 Related party transactions

All trading with related parties, including and not limited to licence fees, rentals and other sundry charges, has been on a commercial basis without special privileges. During the year ended 30 June 2006 transactions with HMSC-AIAL Limited totalled \$0.416 million (2005: \$0.688 million) and with Waste Resources Limited totalled \$0.131 million (2005: \$0.275 million). As at 30 June 2006 \$0.233 million was owed by HMSC-AIAL Limited (2005: \$0.004 million) and \$0.011 million was owed by Waste Resources Limited (2005: \$0.037 million).

Waste Resources Limited leased the building it occupied from the company.

The company has a tenancy or licence agreement with Telecom New Zealand Limited and Freightways Limited in which there are common directorships, either during the financial year or subsequent to year-end.

24 Employee share purchase plan

The company established the Auckland International Airport Limited Share Purchase Plan ('purchase plan') on 16 November 1999 to assist employees (but not directors) to become equity holders in the company. A Trust Deed dated 19 November 1999 governs the operation of the purchase plan.

The purchase plan was open to all full-time and part-time (those working more than 15 hours per week) employees who have a minimum of one year's service. Consideration payable for the shares was determined by the company.

The company advanced 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. The terms of such loans are determined by the company. The amount payable by the purchase plan to the company at balance date is \$0.095 million (2005: \$0.225 million). 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. The voting rights are exercised by the trustees of the purchase plan during the restrictive period. The restrictive period is the longer of three years or the period of repayment of the loan made by the company in relation to the acquisition of shares.

The purchase plan's trustees are D T Hansen, R G Sinclair and C F Spillane. D T Hansen was the general manager operations and has subsequently retired. R G Sinclair and C F Spillane are currently the chief financial officer and general counsel and corporate secretary of Auckland International Airport Limited respectively. They are appointed and can be removed by the company.

Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2006

24 Employee share purchase plan CONTINUED

The following ordinary shares were allocated and held under the purchase plan:

	2006 Shares	2005 Shares
Allocation – May 2004		
Opening balance	294,620	81,435
Share split adjustment	–	244,305
Shares forfeited during the year	(18,200)	(20,200)
Shares fully paid during the year	(5,460)	(10,920)
	270,960	294,620

Shares were issued at a price of \$5.14 being a 20 per cent discount to the market rate on 15 April 2004, the date of the issue. The issue price after a share split adjustment is \$1.29.

Unallocated shares held by the plan

Opening balance of unallocated shares from November 1999 share allocation	91,584	22,896
Share split adjustment	–	68,688
	91,584	91,584
Opening balance of unallocated shares from May 2004 share allocation	22,020	455
Share split adjustment	–	1,365
Shares forfeited to the plan during the year	18,200	20,200
	40,220	22,020
Total unallocated shares held by the plan	131,804	113,604
Total ordinary shares held at 30 June	402,764	408,224

The shares for the November 1999 share allocation were acquired by the trustees at an average price of \$2.93 each on 28 September 1999. The shares for the May 2004 share allocation were acquired by the trustees at \$5.14 on 28 May 2004.

Shares held by the purchase plan represent approximately 0.033 per cent (2005: 0.033 per cent) of the total company's shares on issue.

25 Executive share option incentive plan

Executive share option plan

As part of executive remuneration, the company has established the Executive Share Option Plan ('option plan') to assist in attracting and retaining key executives, and ensuring that the interests of those executives and the company are aligned. The company has issued options for shares in the company to certain employees under the terms of the option plan. The holder of an option is entitled to subscribe for one fully paid share for each option. The exercise price is determined based on the company's share price at the date of issue of the option adjusted to reflect movements in the NZX 40 gross index between the date of issue and the date of exercise of the option, less any dividends and capital repayments which the company has paid during this period. The number of options granted before 2003 has been reduced for the capital repayment of seven in every 25 shares made in October 2002. The number of options has been increased to reflect the four-for-one share split completed in April 2005.

The first issue of options under this option plan was made on 15 December 1999. No options are exercisable until after the third anniversary of issue of the option. If options are not exercised before the sixth anniversary of issue then they are deemed to have lapsed. Options may lapse when an employee terminates their employment with the company other than through retirement.

Options are issued to executive employees of the company at the discretion of the board of directors of the company. The board has discretion over the number of options issued to any employee and the specific terms of any options issued.

Details of options issued for the parent and the group under the scheme at 30 June 2006 are as follows:

	Issue price	Annual value \$000	2006 Options	2005 Options
Number of options issued on 15 December 1999	\$1.04	230	3,009,600	3,009,600
Options lapsed in prior periods			(216,000)	(216,000)
Options exercised in prior periods			(2,793,600)	(2,736,000)
Opening balance of options outstanding			–	57,600
Options lapsed in current period			–	–
Options exercised in current period			–	(57,600)
Number of options outstanding at 30 June			–	–
Number of options issued on 8 September 2000	\$1.02	277	3,441,600	3,441,600
Options lapsed in prior periods			(460,800)	(460,800)
Options exercised in prior periods			(2,548,800)	(1,724,800)
Opening balance of options outstanding			432,000	1,256,000
Options lapsed in current period			–	–
Options exercised in current period			(273,600)	(824,000)
Number of options outstanding at 30 June			158,400	432,000
Number of options issued on 6 September 2001	\$1.34	285	3,052,800	3,052,800
Options lapsed in prior periods			(403,200)	(360,000)
Options exercised in prior periods			(1,713,600)	–
Opening balance of options outstanding			936,000	2,692,800
Options lapsed in current period			–	(43,200)
Options exercised in current period			(158,400)	(1,713,600)
Number of options outstanding at 30 June			777,600	936,000
Number of options issued on 9 September 2002	\$1.46	415	3,628,800	3,628,800
Options lapsed in prior periods			(604,800)	(374,400)
Options exercised in prior periods			–	–
Opening balance of options outstanding			3,024,000	3,254,400
Options lapsed in current period			–	(230,400)
Options exercised in current period			(1,512,000)	–
Number of options outstanding at 30 June			1,512,000	3,024,000

Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2006

25 Executive share option incentive plan CONTINUED

	Issue price	Annual value \$000	2006 Options	2005 Options
Number of options issued on 11 July 2003	\$1.59	166	2,000,000	2,000,000
Options lapsed in prior periods			-	-
Options exercised in prior periods			-	-
Opening balance of options outstanding			2,000,000	2,000,000
Options lapsed in current period			-	-
Options exercised in current period			-	-
Number of options outstanding at 30 June			2,000,000	2,000,000
Number of options issued on 12 January 2004	\$1.59	77	640,000	640,000
Options lapsed in prior periods			-	-
Options exercised in prior periods			-	-
Opening balance of options outstanding			640,000	640,000
Options lapsed in current period			-	-
Options exercised in current period			-	-
Number of options outstanding at 30 June			640,000	640,000
Total number of options outstanding at 30 June			5,088,000	7,032,000

The annual value of options granted has been calculated at issue date of the respective issues amortised to their earliest exercise date. Black Scholes methodology has been adopted to establish the value and therefore the number of options granted.

Phantom option plans

As options available under the original plan approved by shareholders in 1999 had been fully utilised, the directors adopted a Phantom Option Plan ('phantom plan') approach for the 2003, 2004 and 2005 executive allocations.

The 2003 phantom plan mirrors the workings and economic effect of the previous executive share option plan. The level of the incentive is based on the movement in the company's share price exceeding the movement in the NZX 40 gross index. It results in the payment of a taxable cash sum on the completion of the term of the plan (three to six years). It does not result in the issue of further shares.

The 2004 and 2005 phantom plans have two components. One component involves the deemed allocation of shares at the prevailing market value at the time of issue. The value of the shares is paid to the executive after three years qualifying service at the market rate prevailing at that time, less the appropriate tax. Ordinary dividends are not taken into account. The second component involves the deemed allocation of options at prevailing market rates. The deemed exercise price is increased by the company's cost of equity each year, less dividends paid. Any benefit above the exercise price is payable in cash, less tax, three to six years after allocation.

As at 30 June 2006 the estimated accrued cost of the phantom plans is \$0.875 million (2005: \$0.400 million) and full provision has been made in the financial statements.

26 Segmental reporting

The company is located in one geographic segment in Auckland, New Zealand, and operates in the airport industry. The company earns revenue from aeronautical activities and other charges and rents associated with operating an airport.

27 Events subsequent to balance date

On 24 August 2006, the directors approved the payment of a 2006 fully imputed final dividend of \$54,312,679 (4.45 cents per share) to be paid on 20 October 2006.

28 Adoption of New Zealand equivalents to International Financial Reporting Standards

The company will adopt New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) in its financial statements for the year ending 30 June 2008. When complying with NZ IFRS for the first time, NZ IFRS compliant comparative figures for the year ending 30 June 2007 will be required.

A project team, monitored by an internal IFRS steering group chaired by the chief financial officer, has been established to plan and implement the company's transition to NZ IFRS, subject to policy determination by the board. To date the project team has completed a detailed technical evaluation of NZ IFRS standards and has identified NZ IFRS accounting policies. The project team has commenced work on system changes to capture additional information. The project is being managed internally with assistance and expertise provided by Ernst & Young.

The key differences between present New Zealand Generally Accepted Accounting Practice (NZ GAAP) and NZ IFRS that will impact on the company are summarised below. This summary should not be taken as an exhaustive list of all differences between existing NZ GAAP and NZ IFRS that will impact the company. Changes continue to be made to NZ IFRS and therefore there may be further changes to the information disclosed below prior to adoption. In addition, the directors may, at any time until completion of the company's first NZ IFRS compliant financial statements, elect to revisit, and where considered necessary, revise the accounting policies selected. The actual impact of adopting NZ IFRS may vary from the information presented and the variation may be material.

Reconciliation of equity, total liabilities and total assets on initial transition to NZ IFRS as at 1 July 2006

Notes	GROUP					
	Share capital \$000	Retained earnings \$000	Other reserves \$000	Total equity \$000	Total liabilities \$000	Total assets \$000
Total reported under NZ GAAP	166,910	(25,387)	1,713,579	1,855,102	902,759	2,757,861
Deferred taxation (a)	-	5,201	(110,928)	(105,727)	105,727	-
Property, plant and equipment (PPE) revaluation (b)	-	(47,973)	47,973	-	-	-
Investment property (IP) revaluation (c)	-	76,238	(66,642)	9,596	-	9,596
Reclassification of IP and PPE (d)	-	109,949	(109,949)	-	-	-
Financial instruments (e)	-	(8)	2,005	1,997	(630)	1,367
Share-based payments (f)	-	(772)	772	-	-	-
Employee benefits (g)	-	(776)	-	(776)	776	-
Total NZ IFRS adjustments	-	141,859	(236,769)	(94,910)	105,873	10,963
Restated total under the transition to NZ IFRS as at 1 July 2006	166,910	116,472	1,476,810	1,760,192	1,008,632	2,768,824

Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2006

28 Adoption of New Zealand equivalents to International Financial Reporting Standards CONTINUED

Notes	PARENT					
	Share capital \$000	Retained earnings \$000	Other reserves \$000	Total equity \$000	Total liabilities \$000	Total assets \$000
Total reported under NZ GAAP	166,910	(25,021)	1,713,579	1,855,468	902,470	2,757,938
Deferred taxation (a)	–	4,701	(110,928)	(106,227)	106,227	–
Property, plant and equipment (PPE) revaluation (b)	–	(47,973)	47,973	–	–	–
Investment property (IP) revaluation (c)	–	76,238	(66,642)	9,596	–	9,596
Reclassification of IP and PPE (d)	–	109,949	(109,949)	–	–	–
Financial instruments (e)	–	(8)	2,005	1,997	(630)	1,367
Share-based payments (f)	–	(772)	772	–	–	–
Employee benefits (g)	–	(776)	–	(776)	776	–
Total NZ IFRS adjustments	–	141,359	(236,769)	(95,410)	106,373	10,963
Restated total under the transition to NZ IFRS as at 1 July 2006	166,910	116,338	1,476,810	1,760,058	1,008,843	2,768,901

Key impact areas**(a) Deferred taxation**

Under NZ IFRS the deferred tax liability will be calculated using a 'balance sheet' approach, which recognises deferred tax assets and liabilities by reference to differences between the accounting and tax values of balance sheet items. The current approach recognises differences between the accounting surplus and taxable income.

Furthermore, the company currently accounts for deferred taxation using the partial basis which means that a deferred tax liability is only recognised to the extent that it can be foreseen to crystallise in the future. The partial basis of accounting for deferred taxation is not allowed under NZ IFRS. The most significant impact identified to date is the recognition of a deferred tax liability in respect of the revaluation of property, plant and equipment and investment property. The effect of this change on the group is to recognise a deferred tax liability in the statement of financial position of \$105.727 million, a decrease in the property, plant and equipment revaluation reserve of \$110.928 million and an increase in retained earnings of \$5.201 million on transition to NZ IFRS as at 1 July 2006. The effect of this change on the parent is to recognise a deferred tax liability in the statement of financial position of \$106.227 million, a decrease in the property, plant and equipment revaluation reserve of \$110.928 million and an increase in retained earnings of \$4.701 million on transition to NZ IFRS as at 1 July 2006.

(b) Property, plant and equipment

The company currently revalues land and buildings, runway, taxiways, and aprons and infrastructure assets on a cyclical basis at a minimum of once every five years. Revaluation increases and decreases are currently recognised on a class-by-class basis. Under NZ IFRS off-setting of revaluation increases and decreases on individual assets within a class of property, plant and equipment is not permitted. Changes arising from this requirement will result in increased volatility of earnings because revaluation decreases, below historical cost for individual assets, are required to be recognised in the statement of financial performance.

The effect of this change, on transition to NZ IFRS as at 1 July 2006, is to recognise a transfer of \$47.973 million from the property, plant and equipment revaluation reserve to opening retained earnings.

(c) Investment properties

Investment properties are currently valued annually at market value less the estimated costs of disposal. Under NZ IFRS investment properties will be measured at fair value.

The difference between fair value and market value is that disposal costs are not deducted to arrive at fair value. The result will be an increase in the value recorded for investment properties. The effect of this change, on transition to NZ IFRS as at 1 July 2006, is to recognise an increase in investment property and opening retained earnings of \$9.596 million.

The company currently records changes in the valuation of investment properties in equity as an investment property revaluation reserve. Under NZ IFRS both upward and downward revaluations of investment properties will be recognised directly in the statement of financial performance which will flow through to equity as retained earnings. The effect of this change, on transition to NZ IFRS as at 1 July 2006, is to transfer the investment property revaluation reserve of \$66.642 million to opening retained earnings.

Changes arising from this requirement will result in greater earnings volatility as the revaluations will be recognised in the statement of financial performance.

(d) Reclassification of investment property and property, plant and equipment

The company currently classifies all undeveloped properties as property, plant and equipment. Under NZ IFRS undeveloped properties held for unidentified use are to be classified as investment properties. Properties held for determined future use as investment properties are classified as investment properties. The effect of this change, on transition to NZ IFRS as at 1 July 2006, is a transfer of \$152.749 million from property, plant and equipment to investment properties and a reclassification of the property, plant and equipment revaluation reserve applicable to these assets to retained earnings of \$109.949 million.

(e) Financial instruments

The company uses derivatives to manage its interest rate risks. The net differential, paid or received, on those derivatives is currently recognised as a component of interest expense over the period of the contract.

Under NZ IFRS all derivative financial instruments will be recognised at fair value in the statement of financial position. Changes in the fair value of the derivatives will be recognised in the statement of financial performance unless strict hedge criteria are met. If the criteria are met for cash flow hedge accounting, the gain or loss on the hedging derivative is deferred within equity and released to the statement of financial performance at the same time as the transaction it is hedging. If the criteria are met for fair value hedge accounting, the gain or loss on the hedged item is also recognised at fair value and both the change in the fair value of the derivative and the hedged item are recognised in the statement of financial performance. The effect of this change, on transition to NZ IFRS as at 1 July 2006, is to increase assets by \$1.367 million, decrease liabilities by \$0.630 million, increase other reserves within shareholders' equity by \$2.005 million and decrease retained earnings by \$0.008 million.

(f) Share-based payments

Under NZ IFRS, the effect of all share-based payment transactions must be reflected in the statement of financial performance and the statement of financial position.

The company has issued share options and phantom shares and options to executives as part of executive remuneration. An employee share purchase plan is also in place to assist employees to become equity holders in the company. The shares are usually offered to employees at a discount to market value at the time of issue. The company does not currently recognise an expense in respect of the share option scheme or the employee share purchase plan.

The terms of the employee share purchase plan and executive share option plan would be considered as equity-settled. NZ IFRS requires that, at grant date, the fair value of the options is measured and expensed over the period the employee provides the related services. In subsequent periods, adjustments are only made to reflect changes in the number of options expected to vest or that have vested. The company intends to take up an allowed exemption, on transition to NZ IFRS, to apply the change only to options granted subsequent to 7 November 2002. The effect of this change, on transition to NZ IFRS as at 1 July 2006, is to decrease opening retained earnings by \$0.772 million and increase other shareholders' equity by the equivalent amount.

The phantom share and option plans would be considered cash-settled. For cash-settled transactions, the fair value of the liability is measured at each reporting date and at the date of settlement, with any changes in fair value recognised in the statement of financial performance. This approach is consistent with the current accounting treatment for the phantom share and option plans.

(g) Employee benefits

The company currently recognises a liability when long service leave is fully vested. Under NZ IFRS employee benefits are accrued as they are earned. The liability is measured using an actuarial technique to reflect the probability that payment will be required.

On adoption of NZ IFRS long service leave not yet vested and a portion of unused sick leave entitlements earned and expected to be paid in the future will be recognised as a liability and as a charge against earnings. The effect of this change, on transition to NZ IFRS as at 1 July 2006, is to increase liabilities by \$0.776 million and decrease opening retained earnings by the equivalent amount.

Audit report

Deloitte.

To the shareholders of Auckland International Airport Limited

We have audited the financial statements on pages 44 to 67. The financial statements provide information about the past financial performance and financial position of Auckland International Airport Limited (the 'Company') and Group as at 30 June 2006. This information is stated in accordance with the accounting policies set out on pages 48 to 49.

Board of Directors' responsibilities

The Board of Directors is responsible for the preparation, in accordance with New Zealand law and generally accepted accounting practice, of financial statements which give a true and fair view of the financial position of the Company and Group as at 30 June 2006 and of the results of their operations and cash flows for the year ended on that date.

Auditors' responsibilities

It is our responsibility to express to you an independent opinion on the financial statements presented by the Board of Directors.

Basis of opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the Board of Directors in the preparation of the financial statements; and
- whether the accounting policies are appropriate to the Company and Group circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to obtain reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Other than in our capacity as auditor and the provision of taxation advice, we have no relationship with or interests in the Company, its subsidiary or associate.

Unqualified opinion

We have obtained all the information and explanations we have required.

In our opinion:

- proper accounting records have been kept by the Company as far as appears from our examination of those records; and
- the financial statements on pages 44 to 67:
 - comply with generally accepted accounting practice in New Zealand;
 - give a true and fair view of the financial position of the Company and Group as at 30 June 2006 and the results of their operations and cash flows for the year ended on that date.

Our audit was completed on 24 August 2006 and our unqualified opinion is expressed as at that date.



Chartered Accountants
Auckland, New Zealand

Five-year summary

FOR THE YEAR ENDED 30 JUNE

Statement of financial performance

	2006 \$000	2005 \$000	2004 \$000	2003 \$000	2002 \$000
Operating revenue					
Airfield income	67,351	66,280	64,157	55,498	53,568
Development charge	60,405	49,531	46,284	37,669	32,545
Terminal services charge	17,274	13,866	14,587	14,147	14,768
Retail income	86,712	84,681	82,206	75,472	57,826
Rental income	31,502	29,243	25,557	22,692	21,640
Rates recoveries	2,285	2,096	2,051	–	–
Car park income	24,847	23,396	18,448	14,896	12,673
Interest income	517	144	833	1,838	894
Other	14,921	13,488	9,064	7,666	7,971
Non-recurring revenue	–	–	–	6,667	–
Total revenue	305,814	282,725	263,187	236,545	201,885
Expenses					
Staff	25,950	24,024	22,452	22,886	20,222
Repairs and maintenance	20,500	18,469	17,787	16,549	16,168
Rates and insurance	5,793	5,482	5,036	2,606	1,971
Other	13,410	13,232	13,442	11,584	10,618
Total operating expenses	65,653	61,207	58,717	53,625	48,979
Earnings before interest, taxation and depreciation (EBITDA)	240,161	221,518	204,470	182,920	152,906
Depreciation and impairment expenses	38,546	31,895	31,487	30,593	31,800
Earnings before interest and taxation (EBIT)	201,615	189,623	172,983	152,327	121,106
Interest expense	54,911	36,229	33,474	32,234	18,833
Surplus before taxation	146,704	153,394	139,509	120,093	102,273
Taxation expense	43,549	47,753	45,194	36,592	30,762
Surplus after taxation	103,155	105,641	94,315	83,501	71,511

Five-year summary CONTINUED

FOR THE YEAR ENDED 30 JUNE

Statement of movements in equity

	2006 \$000	2005 \$000	2004 \$000	2003 \$000	2002 \$000
Total recognised revenues and expenses					
Net surplus for the year	103,155	105,641	94,315	83,501	71,511
Increase in value of property, plant and equipment	1,385,718	–	–	–	163,978
Increase in value of investment properties	13,615	10,707	8,644	3,078	5,165
	1,502,488	116,348	102,959	86,579	240,654
Contribution from owners					
Increase in share capital	3,485	3,554	2,792	1,681	3,000
	3,485	3,554	2,792	1,681	3,000
Distributions to owners					
Ordinary dividends paid	(100,228)	(98,596)	(70,046)	(60,560)	(51,548)
Special dividends to be paid	–	(146,722)	–	–	–
Return of capital	–	–	–	(212,714)	–
Buy-back of shares	(8,192)	–	–	–	–
	(108,420)	(245,318)	(70,046)	(273,274)	(51,548)
Movements in equity for the year	1,397,553	(125,416)	35,705	(185,014)	192,106
Equity at beginning of year	457,549	582,965	547,260	732,274	540,168
Equity at end of year	1,855,102	457,549	582,965	547,260	732,274

AS AT 30 JUNE

Statement of financial position

	2006 \$000	2005 \$000	2004 \$000	2003 \$000	2002 \$000
Non-current assets					
Property, plant and equipment					
Freehold land	1,645,619	458,196	458,438	461,689	461,896
Buildings and services	425,392	310,246	277,086	273,932	285,157
Infrastructure	195,742	123,848	121,821	119,851	111,945
Runway, taxiways and aprons	254,855	181,702	128,163	114,221	117,038
Vehicles, plant and equipment	11,822	9,402	10,071	10,097	10,234
	2,533,430	1,083,394	995,579	979,790	986,270
Investment properties	193,502	175,439	157,669	120,724	98,811
Investment in subsidiary and associated company	2,988	2,800	2,499	2,006	2,091
Other non-current assets	1,075	–	–	–	–
	2,730,995	1,261,633	1,155,747	1,102,520	1,087,172
Current assets					
Bank	324	510	265	4,155	6,665
Inventories	100	110	458	539	544
Prepayments	3,616	3,705	1,514	2,029	2,227
Accounts receivable	11,935	10,929	11,702	6,668	5,971
Taxation receivable	10,891	3,057	–	769	730
	26,866	18,311	13,939	14,160	16,137
Total assets	2,757,861	1,279,944	1,169,686	1,116,680	1,103,309
Shareholders' equity					
Issued and paid-up capital	166,910	163,940	160,386	157,594	215,000
Cancelled share reserve	(161,304)	(153,627)	(153,627)	(153,627)	–
Retained earnings	(25,387)	(28,314)	111,363	87,094	64,153
Property, plant and equipment revaluation reserve	1,808,241	422,523	422,523	422,523	422,523
Investment property revaluation reserve	66,642	53,027	42,320	33,676	30,598
	1,855,102	457,549	582,965	547,260	732,274
Non-current liabilities					
Term borrowings	600,809	401,417	375,000	200,000	150,000
Other term liabilities	958	1,097	1,412	621	683
	601,767	402,514	376,412	200,621	150,683
Current liabilities					
Accounts payable	38,290	34,359	21,792	25,949	20,352
Provision for special dividend	–	146,722	–	–	–
Taxation provision	–	–	617	–	–
Short-term borrowings	259,808	238,800	187,900	342,850	200,000
Provision for noise mitigation	2,894	–	–	–	–
	300,992	419,881	210,309	368,799	220,352
Total equity and liabilities	2,757,861	1,279,944	1,169,686	1,116,680	1,103,309

Five-year summary CONTINUED

FOR THE YEAR ENDED 30 JUNE

Statement of cash flows

	2006 \$000	2005 \$000	2004 \$000	2003 \$000	2002 \$000
Cash flow from operating activities					
Cash was provided from:					
Receipts from customers	300,580	281,137	257,631	226,396	207,128
Interest received	517	144	875	1,767	860
Dividends from associated companies	500	500	–	750	500
	301,597	281,781	258,506	228,913	208,488
Cash was applied to:					
Payments to suppliers and employees	(60,727)	(60,247)	(58,853)	(49,768)	(45,747)
Income tax paid	(51,383)	(51,427)	(43,808)	(36,631)	(31,888)
Other taxes paid	(496)	(514)	(445)	(347)	(334)
Interest paid	(51,596)	(38,557)	(32,915)	(28,090)	(20,880)
	(164,202)	(150,745)	(136,021)	(114,836)	(98,849)
Net cash flow from operating activities	137,395	131,036	122,485	114,077	109,639
Cash flow from investing activities					
Cash was provided from:					
Proceeds from sale of assets	2,983	1,402	22	10	2,108
	2,983	1,402	22	10	2,108
Cash was applied to:					
Purchase of property, plant and equipment	(101,026)	(105,095)	(49,403)	(18,504)	(82,125)
Expenditure on investment properties	(4,448)	(7,063)	(28,788)	(18,836)	–
Interest paid – capitalised	(2,758)	(2,310)	(580)	(314)	(1,873)
Shares in and advances to associated companies	–	–	–	(200)	(1,100)
Other investing activities	(1,075)	–	–	–	–
	(109,307)	(114,468)	(78,771)	(37,854)	(85,098)
Net cash applied to investing activities	(106,324)	(113,066)	(78,749)	(37,844)	(82,990)
Cash flow from financing activities					
Cash was provided from:					
Increase in share capital	3,485	3,554	2,370	1,681	3,000
Increase in borrowings	1,833,050	835,217	596,050	831,750	377,900
	1,836,535	838,771	598,420	833,431	380,900
Cash was applied to:					
Decrease in borrowings	(1,612,650)	(757,900)	(576,000)	(638,900)	(349,200)
Dividends paid	(246,950)	(98,596)	(70,046)	(60,560)	(51,548)
Return of capital	–	–	–	(212,714)	–
Buy-back of shares	(8,192)	–	–	–	–
	(1,867,792)	(856,496)	(646,046)	(912,174)	(400,748)
Net cash flow applied to financing activities	(31,257)	(17,725)	(47,626)	(78,743)	(19,848)
Net increase/(decrease) in cash held	(186)	245	(3,890)	(2,510)	6,801
Opening cash brought forward	510	265	4,155	6,665	(136)
Ending cash carried forward	324	510	265	4,155	6,665

FOR THE YEAR ENDED 30 JUNE

Capital expenditure

	2006 \$m	2005 \$m	2004 \$m	2003 \$m	2002 \$m
Airfield	30.1	51.3	19.9	3.4	37.8
International terminal	42.8	59.5	16.7	5.5	26.0
Domestic terminals	4.2	1.1	0.2	0.4	1.8
Car parking	16.5	1.3	6.7	1.5	1.6
Infrastructure and other	9.8	6.9	3.8	2.7	1.6
Property development	6.1	7.7	28.1	23.9	12.3
Total	109.5	127.8	75.4	37.4	81.1

Key performance indicators

	2006	2005	2004	2003	2002
Financial performance					
EBITDA margin (%)*	78.5%	78.4%	77.7%	76.7%	75.7%
Return on total assets (%)*	3.7%	8.3%	8.1%	6.9%	6.5%
Earnings per share (cents)**	8.44	8.65	7.74	6.14	4.24
Financial position and gearing					
Debt/Debt + equity (%)	31.7%	58.4%	49.2%	49.8%	32.4%
Debt/EBITDA (times)	3.6	2.9	2.8	3.0	2.3
EBITDA interest cover (times)	4.2	5.7	6.0	5.6	7.4
EBIT interest cover (times)	3.5	4.9	5.1	4.7	5.8
Operating efficiencies					
Passengers per employee	41,218	39,774	38,976	34,158	33,603
Operating revenue per operating staff (\$)	1,100,051	999,028	953,576	832,891	770,553
Operating revenue per passenger (\$)	26.69	25.12	24.47	24.38	22.93
Retail revenue per international passenger (\$)	13.34	13.17	13.44	14.06	11.19
Car park revenue per passenger (\$)	2.22	2.14	1.77	1.64	1.50
Operating staff costs/operating revenue (%)	8.5%	8.5%	8.5%	10.0%	10.0%

* Excludes the effect of non-recurring revenue in 2003

** Adjusted for four-for-one split

Passenger, aircraft and MCTOW

	2006	2005	2004	2003	2002
Passenger movements					
International	6,499,767	6,432,161	6,116,655	5,370,989	5,168,728
Domestic	4,958,786	4,823,916	4,640,851	4,056,663	3,635,221
Aircraft movements					
International	38,757	38,465	36,885	31,434	28,361
Domestic	122,136	119,987	117,927	113,097	114,259
MCTOW (tonnes)					
International	4,186,813	4,140,882	3,983,093	3,335,626	3,224,998
Domestic	1,639,690	1,586,692	1,611,770	1,584,528	1,550,638

Corporate governance

The Auckland International Airport Limited 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. It also takes account of the company's listing on both the NZX and the ASX. The company's corporate governance practices fully reflect and satisfy the 'ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations' ('ASX Principles') and the 'NZX Corporate Governance Best Practice Code' ('NZX Code').

The comprehensive ASX Principles sets out 10 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 maximise the transparency of the company's corporate governance practices for the benefit of shareholders and other stakeholders. This is consistent with the approach taken in the last annual report, and helps readers compare reports.

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 – www.auckland-airport.co.nz

Principle 1: Lay solid foundations for management and oversight

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 roles are:

- Working with company management to ensure that the company's strategic goals are clearly established, and that strategies are in place to achieve them.
- Monitoring management performance in strategy implementation.
- Appointing and reviewing the chief executive officer's performance and, where necessary, terminating the chief executive officer's employment.
- Approving the appointment of the corporate secretary.
- Approving remuneration policies applicable to senior management.
- Approving and monitoring the company's financial statements and other reporting, including reporting to shareholders, and ensuring the company's obligations of continuous disclosure are met.
- Ensuring that the company adheres to high ethical and corporate behaviour standards.
- Establishing procedures and systems to ensure the occupational health and safety of the company's employees.

- Promoting a company culture and remuneration practice which facilitates the recruitment, professional development and retention of staff.
- Ensuring that the company has appropriate risk management and regulatory compliance policies in place, and monitoring the appropriateness and implementation of those policies.

The board established the following committees to ensure efficient decision-making:

- Audit and risk management.
- Remuneration.
- Nominations.

The roles of these committees are detailed below.

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

All directors have been issued letters setting out the terms and conditions of their appointment. A copy of the standard form of this letter is available on the company's website.

The chief executive officer and other members of the senior management team have employment agreements setting out their roles and conditions of employment. The company has set detailed delegated authorities controlling the extent to which employees can commit the company.

Principle 2: Structure the board to add value

The number of directors is determined by the board, in accordance with the company's constitution, to ensure it is large 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 six directors, all of whom 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 Security Holder (as that term is defined in section 2 of the Securities Markets Act 1988) in the company, or if he/she represents or is not an officer of or otherwise associated directly with a Substantial Security Holder of the company;
- is or has not within the past three years been employed in an executive capacity by the company;
- 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 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 per cent or more of that person's annual revenue from, or by virtue of, a relationship (other than as a director of AIAL) the director or the associated person of the director has with the company or a Substantial Security Holder of the company.

The directors as at the date of this annual report are:

Wayne Boyd LLB (Hons) (chairman)

Anthony Frankham FCA, FAMINZ, AC Inst Arb (UK), FM Inst D

John Maasland MA (Cantab)

Michael Smith MCom

Keith Turner BE (Hons), ME, PhD, FIEE, FIPENZ, FNZIM

Joan Withers MBA, AM Inst D

Sir Wilson Whineray was a director of the company during the financial year ended 30 June 2006 until his retirement at the company's annual meeting on 26 October 2005.

A biography of each director of the company is set out on pages 14 and 15.

The board considers that the roles of chairman and chief executive officer must be separate. The board charter requires that the chairman is an independent, non-executive director.

The table below shows a list of each director's board committee memberships, the number of meetings of the board and its committees held during the year, and the number of those meetings attended by each director. As Mr Maasland was appointed to the board on 3 August 2006, he attended no meetings during the financial year ended 30 June 2006.

Minutes are taken of all board committee meetings. These are included in the papers for the next full board meeting following the relevant committee meeting.

Subject to the prior approval of the chairman, 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 they are appointed at the meeting next following that interim appointment. The board charter records these requirements, which are subject to any limitations imposed by shareholders in a general meeting, and the requirements of the constitution relating to the retirement of directors by rotation.

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. The committee has a formal charter. All directors are members of the committee, with Michael Smith as the chairman. All directors have participated in the deliberations of this committee during the year.

Name	Status	Board					Audit and risk management			Remuneration			Nominations		
		Member	No. of scheduled meetings	No. of scheduled meetings attended	No. of ad hoc meetings	No. of ad hoc 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
Wayne Boyd	Independent non-executive	✓	8	8	3	2	✓ ²	7	5	✓	1	1	✓ ⁹	1	1
Anthony Frankham	Independent non-executive	✓	8	7	3	3	✓	7	7				✓	1	1
Michael Smith	Independent non-executive	✓	8	7	3	3	✓ ³	7	3 ³	✓ ⁶	1	1	✓ ¹⁰	1	1
Keith Turner	Independent non-executive	✓	8	8	3	3	✓ ⁴	7	0 ⁴	✓ ⁷	1	1	✓	1	1
Sir Wilson Whineray	Independent non-executive	✓ ¹	8	3 ¹	3	1 ¹				✓ ¹	1	0 ¹	✓ ¹	1	1
Joan Withers	Independent non-executive	✓	8	7	3	3	✓ ⁵	7	4 ⁵	✓ ⁸	1	0 ⁸	✓	1	1

1. Sir Wilson Whineray retired from the board and committees after the annual meeting on 26 October 2005. 2. Wayne Boyd resigned from the audit and risk management committee on 23 June 2006. 3. Michael Smith resigned from the audit and risk management committee on 26 October 2005. 4. Keith Turner was appointed to the audit and risk management committee on 23 June 2006. 5. Joan Withers was appointed to the audit and risk management committee on 26 October 2005. 6. Michael Smith was appointed to the remuneration committee as chairman on 26 October 2005. 7. Keith Turner was appointed to the remuneration committee on 26 October 2005. 8. Joan Withers resigned from the remuneration committee on 26 October 2005. 9. Wayne Boyd resigned as chairman of the nominations committee on 23 May 2006, but remains as a member of that committee. 10. Michael Smith was appointed chairman of the nominations committee on 23 May 2006.

Corporate governance CONTINUED

Principle 3: Promote ethical and responsible decision-making

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 policy and code of conduct, which is published on its website. The ethics policy and code of conduct applies equally to directors and employees of the company. The company also has a policy on share trading by directors and senior managers.

Principle 4: Safeguard integrity in financial reporting

The audit and risk management committee is responsible for risk management oversight. This committee's formal charter reflects this responsibility. The committee provides general assistance to the board in performing its responsibilities, with particular reference to financial matters. It includes specific responsibility to review:

- the company's financial reporting processes, system of internal control and the audit process; and
- the company's processes for identifying and managing risk, and for monitoring compliance by the company with law and its 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 current members are Anthony Frankham (chairman), Joan Withers and Keith Turner, all of whom are independent non-executive directors. Their qualifications are set out on pages 14 and 15 and attendance at meetings on page 75.

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

The chief executive officer and the chief financial officer are required each year to confirm in writing to the committee that:

- the company's financial statements present a true and fair view, in all material respects, of the company's financial condition, and operational results are in accordance with relevant accounting standards;
- the statement given in the preceding paragraph is founded on a secure 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 audit and risk management committee has adopted a policy in respect of the independence of the external auditor. This policy 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 5: Make timely and balanced disclosure

The company is committed to promoting investor confidence by providing forthright, timely, accurate, complete and equal access to information in accordance with the ASX and NZSX Listing Rules. The company has a formal policy designed to ensure this occurs.

The corporate 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 officer are required to provide the corporate secretary with all relevant information, to regularly certify that they have done so, and made all reasonable enquiries to ensure this has been achieved.

The corporate secretary is responsible for releasing any relevant information to the market once that has been approved. Financial information release is approved by the audit and risk management committee, while information release on other matters is approved by the chairman of the board and the chief executive officer.

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

Principle 6: Respect the rights of shareholders

The company's communications framework and strategy is designed to ensure that communications with shareholders and all other stakeholders are managed efficiently. This strategy forms part of the disclosure and communications policy referred to under Principle 5.

The company currently keeps shareholders informed through:

- the annual report;
- the interim 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
- the company's website.

The company's annual meetings are well attended by shareholders, and the company considers the meetings to be a valuable element of its communications programme. The chairman provides an opportunity for shareholders to raise questions for their board, and to make comments about the company's operations and performance. The chairman may ask the chief executive officer 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.

Principle 7: Recognise and manage risks

Risk management is an integral part of Auckland International Airport Limited'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; and
- compliance monitoring to ensure the ongoing integrity of the risk management process.

The company's business is also subject to regular external audit at the operational level by New Zealand's Civil Aviation Authority. The company also has ISO9001:2000 certification. This is subject to audit.

The audit and risk management committee is delegated responsibility by the board for the oversight of the company's risk management programme. The audit and risk management committee's role includes:

- Reviewing the company's system for monitoring compliance with law and the company's policies.
- Evaluating the company's procedures for managing its risk management policy.
- Ensuring that the company has prepared plans to enable it to maintain operational and financial business continuity in the event of adverse circumstances.

Principle 8: Encourage enhanced performance

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. Tours of the company's facilities keep the board abreast of developments. Directors and management are also encouraged to continue the development of their business skills and knowledge by attending relevant courses, conferences and briefings.

The board has recorded in its charter the requirement for a regular review of the performance of the board, its members and committees. Each year the performance of individual directors is evaluated by a process which includes:

- Each director discussing with the chairman that director's contribution to the proceedings of the board and the performance of the board and its committees generally.
- The chairman's own contribution being discussed with the rest of the board.

The nominations committee assists the chairman in the performance review process.

The remuneration committee reviews the performance of the chief executive officer and management reporting direct to the chief executive officer. These performance reviews occur annually in accordance with formal review procedures.

Principle 9: Remunerate fairly and responsibly

The board's remuneration committee has a formal charter, and all of its members are independent, non-executive directors. Remuneration committee members are Michael Smith (chairman), Wayne Boyd and Keith Turner.

The company's remuneration policy is to ensure that:

- staff are fairly and equitably remunerated relative to comparable positions within the Australasian market;
- staff are adequately rewarded for excellence in achievements and performance; and
- the company is able to attract and retain high-performing people who will ensure the achievement of company objectives.

Directors

Non-executive directors receive fees determined by the board on the recommendation of the remuneration committee. Those fees must be within the aggregate amount per annum approved by shareholders. Shareholders approved a total pool of \$560,000 at the company's annual meeting on 23 November 2004.

Each year the remuneration 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 external advice, the committee makes recommendations on the appropriate levels of remuneration to the board for submission to shareholders for approval. The conclusions of the committee's review this year are set out on page 10.

The company's constitution allows the payment of a retirement benefit, being a lump sum no greater than the director's fees paid to the relevant director in any three years of the director's term of office chosen by the company. Following the company's 2004 annual meeting, the directors have frozen directors' retirement allowances at the levels applying at the date of that meeting. Directors appointed after 21 April 2004 are not entitled to retirement payments.

Remuneration of directors

Name	Director's fee	Accrued retirement allowance
Wayne Boyd	\$140,000	\$270,000
Anthony Frankham	\$85,000	\$150,000
Michael Smith	\$80,000	\$105,000
Keith Turner	\$70,000	–
Sir Wilson Whineray*	\$167,274	–
Joan Withers	\$75,000	\$120,000

*Sir Wilson Whineray's remuneration includes the payment of a retirement benefit of \$135,000 which had accrued to and was frozen at 23 November 2004.

Management

The company's senior management team is remunerated with a mix of:

- base salary and benefits;
- short-term performance incentives; and
- long-term performance incentives.

Corporate governance CONTINUED

The levels of remuneration, and the mix between the base salary and short and long-term incentives, vary at different levels of management. The short-term component of the performance incentive is payable in cash. It is based on the company's achievement of certain financial goals set by the board annually, and the relevant senior manager's achievement of certain key performance indicators.

Long-term performance incentives include the company's shareholder-approved executive share option plan and two long-term cash-based ("phantom") incentive plans. The plans are designed to assist in attracting and retaining key executives, and ensuring alignment of executive and company interests.

The option plan has operated since 1999, with options issued each subsequent year since 1999. The last options were issued in 2004. A detailed explanation of the option plan is set out in note 25 of the notes to the financial statements.

The cash-based plans are similar to the option plan, but involve payment of a cash sum on the satisfaction of the terms of the plans. Neither includes the issue of shares as is the case under the option plan. The first cash-based plan was established in November 2003 and mirrors the workings and economic effect of the previous option plan. The second cash-based incentive plan, which has been utilised in 2004 and 2005, has two components. One component involves the deemed allocation of shares at the prevailing market value at the time of issue. The value of the shares is paid to the executive after three years' qualifying service at the market rate prevailing at that time, less the appropriate tax. Ordinary dividends are not taken into account. The second component involves the deemed allocation of options at prevailing market rates. The deemed exercise price is increased by the company's cost of equity each year, less dividends paid. Any

benefit above the deemed exercise price is payable in cash, less tax, three to six years after allocation.

The company also has an employee share plan. A full description of the employee share plan is set out in note 24 of the notes to the financial statements.

Directors are not eligible to participate in any of the incentive plans operated by the company.

The salary packages of the five most highly paid executives currently employed by the company are outlined in the table below.

Principle 10: Recognise the legitimate interests of stakeholders

Principle 3 outlines the company's ethics policy and code of conduct. The ethics policy and code of conduct recognises the company's legal and other obligations to all legitimate stakeholders. It requires appropriate conduct from the company's directors, employees and contractors.

The company 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 2001.

Compliance

The company complies with all of the requirements of the ASX Principles and the NZX Code as at the date of this annual report.

Salary packages of the five most highly paid executives

Name	Base salary and benefits ¹	Short-term incentive	Total	Long-term incentive ²
Huse, D W	\$547,218	\$275,000	\$822,218	The company has long-term incentives for senior executives (refer note 25 in the financial statements). As at 30 June 2006, the estimated cost of the 2003, 2004 and 2005 long-term incentive plans was \$875,000, and this has been provided for in full.
Sinclair, R G	\$312,834	\$142,759	\$455,593	
Gollin, A E A	\$316,002	\$128,571	\$444,573	
Reindler, S	\$242,378	\$113,431	\$355,809	
Forbes, N E	\$229,163	\$81,667	\$310,830	

1. Base salary and benefits include:

- base salary;
- company contribution to superannuation arrangements; and
- other benefits, including medical insurance, motor vehicles, professional fees, life and disablement cover.

2. The initial value of the long-term incentive was set independently by First New Zealand Capital Limited by applying the Black Scholes methodology.

3. D T Hansen and C J Curley retired during the year, and received base salaries, benefits, short-term incentives and other payments of \$974,001 (including salary and benefits of \$327,708, short-term incentive of \$110,793 and retirement allowance of \$535,000), and \$319,835, respectively.

Shareholder information

Reporting entity

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

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 has conducted an on-market buy-back of up to 23.9 million securities over the 12 months from 26 August 2005 to 25 August 2006. 4,119,597 shares have been acquired by the company in the course of the buy-back, all of which have been cancelled. The company is not subject to chapters 6, 6A, 6B and 6C of the Australian Corporations Act dealing with the acquisition of shares (ie, substantial holdings and takeovers).

Waivers granted by the NZX

The company obtained a waiver during the year from the NZX in respect of NZSX Listing Rule 5.2.3 so that the company is not required to have at least 500 members of the public holding tranches of its bonds and in respect of NZSX Listing Rule 11.1.1 and Appendix 2 to the NZSX Listing Rules so that the company can set the minimum holding for the tranches of its bonds at \$10,000.

Disciplinary action taken by the NZX or the ASX

Neither the NZX nor the ASX has taken any disciplinary action against the company during the financial year ending 30 June 2006.

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 obliged to comply with the Airport Authorities (Information Disclosure) Regulations, with disclosure financial statements required to be published in November each year.

Auditors

Deloitte have continued to act as auditors of the company, and have undertaken the audit of the financial statements for the 30 June 2006 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 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 \$22,605 to various charities during the year. The company's subsidiary did not make any donations during the year.

Earnings per share

Earnings in cents per ordinary share were 8.44 cents in 2006 compared with 8.65 cents in 2005 and 7.74 cents in 2004.

Credit rating

As at 1 August 2006, the Standard & Poor's long-term debt rating for the company was A Stable and the short-term debt rating was A-1.

Subsidiary company directors

David Hansen (general manager operations, retired) and Stephen Reindler (general manager engineering) held office as directors of Waste Resources Limited as at 30 June 2006. Donald Huse (chief executive officer) held office as an alternate director of Waste Resources Limited as at 30 June 2006. No directors of Waste Resources Limited received any remuneration or benefits as a director.

Annual meeting of shareholders

The company's annual meeting of shareholders will be held in the Genesis Theatre at the TelstraClear Pacific Events Centre, on 25 October 2006 at 10.30am.

Directors' holdings and disclosure of interests

Directors held interests in the following shares in the company as at 30 June 2006:

Wayne Boyd	Beneficially owned	40,000
Anthony Frankham	Beneficially owned	144,000
	Held by associated persons	31,996
Michael Smith	Beneficially owned	144,000
Joan Withers	Beneficially owned	23,996

Shareholder information CONTINUED

Disclosure of interests by directors

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

Wayne Boyd

Chairman, Freightways Limited
 Chairman, Meridian Energy Limited
 Chairman, Telecom Corporation of New Zealand Limited
 Director, Forsyth Barr Group Limited

Anthony Frankham

Chairman, New Zealand Experience Limited
 Director, Procure Health Limited
 Member, New Zealand Takeovers Panel

John Maasland

Chairman, Carter Holt Harvey Limited
 Chairman, The New Zealand Radio Network Limited
 Chairman, South Auckland Health Foundation
 Chairman, The Royal New Zealand Ballet
 Director, APN News & Media Limited
 Director, Auckland Regional Chamber of Commerce
 Director, Macquarie Goodman (NZ) Limited
 Director, Deleat's Group Limited
 Director, Waterman Holdings Limited
 Director, Woosh Wireless Limited

Michael Smith

Chairman and Trustee, The Lion Foundation
 Chairman, BrainZ Instruments Limited
 Chairman, ING (NZ) Holdings Limited
 Chairman, ING Property Management Limited
 Chairman, Tru-Test Corporation Limited
 Director, Fisher & Paykel Healthcare Corporation Limited
 Director, Hauraki Private Equity No.1 Fund
 Director, Hauraki Private Equity No.2 Fund

Keith Turner

Chief executive, Meridian Energy Limited
 Chairman, Arc Innovations Limited
 Chairman, DamWatch Services Limited
 Chairman, Power Engineering Centre (University of Canterbury)
 Chairman, Power Engineering Excellence Trust (University of Canterbury)
 Chairman, WhisperGen Limited
 Chairman, WhisperTech Limited
 Director, Energy for Industry Limited
 Director, Meridian Energy Captive Insurance Limited
 Director, Meridian Energy International Limited
 Director, Meridian Limited
 Director, Woodville Windfarm Limited

Joan Withers

Chief executive officer, Fairfax New Zealand Limited

Remuneration of employees

Grouped below, in accordance with section 211(1)(g) of the Companies Act 1993, are the number of employees or former employees of the company and its subsidiary, excluding directors of the company, who received remuneration and other benefits in their capacity as employees, totalling \$100,000 or more, during the year:

Amount of remuneration	Employees
\$100,000 to \$110,000	3
\$110,001 to \$120,000	3
\$120,001 to \$130,000	1
\$130,001 to \$140,000	7
\$140,001 to \$150,000	2
\$150,001 to \$160,000	5
\$160,001 to \$170,000	1
\$170,001 to \$180,000	1
\$180,001 to \$190,000	1
\$190,001 to \$200,000	2
\$220,001 to \$230,000	1
\$310,001 to \$320,000	2
\$350,001 to \$360,000	1
\$440,001 to \$450,000	1
\$450,001 to \$460,000	1
\$820,001 to \$830,000	1
\$970,001 to \$980,000	1

Remuneration includes salary, performance bonuses, employer's contributions to superannuation, health and insurance plans, motor vehicle and other sundry benefits received in their capacity as employees.

The company has a long-term incentive in place for senior executives for 2003, 2004 and 2005 (refer to note 25 in the financial statements); at balance date the estimated accrued cost of these incentives was \$875,000.

Distribution of ordinary shares and shareholders

AS AT 1 AUGUST 2006

Size of holding	Number of shareholders	%	Number of shares	%
1 – 1,000	2,846	5.37	1,904,674	0.16
1,001 – 5,000	36,113	68.20	74,503,941	6.10
5,001 – 10,000	6,441	12.16	48,166,945	3.95
10,001 – 100,000	7,258	13.71	173,787,374	14.24
100,001 and over	298	0.56	922,189,905	75.55
Total	52,956	100.00	1,220,552,839	100.00

Substantial security holders

Pursuant to section 26 of the Securities Amendment Act 1988, the following persons had given notice as at 1 August 2006 that they were substantial security holders in the company and held a 'relevant interest' in the number of ordinary shares shown below:

Substantial security holder	Number of shares in which 'relevant interest' is held	Date of notice
Auckland City Council	155,766,240	06.12.02
UBS Nominees Pty Limited	136,182,733	05.01.06
Commonwealth Bank of Australia and Subsidiaries	102,027,796	25.01.06
Manukau City Council (through its wholly-owned subsidiary Manukau City Investments Limited)	116,712,656	21.09.05
Manukau City Investments Limited	116,712,656	21.09.05

The total number of voting securities on issue as at 1 August 2006 was 1,220,552,839.

Twenty largest shareholders

AS AT 1 AUGUST 2006

Shareholder	Number of shares	% of capital
New Zealand Central Securities Depository Limited ¹	275,698,552	22.58
Auckland City Council	155,766,240	12.76
Manukau City Investments Limited	116,712,656	9.56
National Nominees Limited	89,213,666	7.30
JP Morgan Nominees Australia Limited	46,431,936	3.80
Citicorp Nominees Pty Limited	19,843,856	1.62
Citicorp Nominees Pty Limited	18,588,369	1.52
Westpac Custodian Nominees Limited	16,927,473	1.38
Citicorp Nominees Pty Limited	16,715,484	1.36
Citicorp Nominees Pty Limited	12,740,102	1.04
Custodial Services Limited	11,486,789	0.94
Citicorp Nominees Pty Limited	11,216,337	0.91
UBS Nominees Pty Limited	10,577,467	0.86
First NZ Capital Custodians Limited	8,883,974	0.72
Cogent Nominees Pty Limited	7,126,474	0.58
Custodial Services Limited	4,914,290	0.40
UBS Wealth Management Australia Nominees Pty Limited	4,469,498	0.36
Citicorp Nominees Pty Limited	3,232,463	0.26
Private Nominees Limited	3,147,637	0.25
NZ Guardian Trust Company Limited	3,077,001	0.25

1. New Zealand Central Securities Depository Limited (NZCSD) is a depository system which allows electronic trading of securities to members. As at 1 August 2006, the 10 largest shareholdings in the company held through NZCSD were:

Shareholder	Number of shares
National Nominees New Zealand Limited	104,405,938
ANZ Nominees Limited	29,324,450
Westpac Banking Corporation	27,305,694
Citibank Nominees (New Zealand) Limited	24,953,185
Accident Compensation Corporation	8,982,088
NZ Superannuation Fund Nominees Limited	8,970,474
Custody and Investment Nominees Limited	7,590,047
Guardian Trust Investment Nominees (RWT) Limited	7,433,070
TEA Custodians Limited	5,982,469
Asteron Life Limited	5,227,550

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	Year
Results announced	February	August
Reports published	March	September
Dividends paid	March	October
Disclosure financial statements	–	November
Annual meeting	–	October

Voting rights

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

Enquiries

Shareholders with enquiries about transactions, changes of address or dividend payments should contact Computershare Investor Services Limited on +64 9 488 8700. Other questions should be directed to the company's corporate 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 100 shares and in Australia a 'marketable parcel' is a parcel of securities of more than AU\$500. As at 1 August 2006, 347 shareholders 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.

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:

- (a) 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.

- (b) The Takeovers Code creates a general rule under which the acquisition of more than 20 per cent of the voting rights in the company or the increase of an existing holding of 20 per cent 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 offer 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 per cent or more of the shares in the company.
- (c) 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 per cent of the shares issued by the company or, if the overseas person already holds 25 per cent or more, the acquisition increases that holding.
- (d) 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

Computershare Investor Services Limited
Level 2
159 Hurstmere Road
Takapuna
North Shore City
Auckland 0622

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Auckland Mail Centre
Auckland 1142
New Zealand

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Australia

Computershare Investor Services Limited
Level 3
60 Carrington Street
Sydney
New South Wales 2000

GPO Box 7045
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New South Wales 1115
Australia

Telephone: +61 2 8234 5000
Facsimile: +61 2 8235 8150

Corporate directory

Directors

Wayne Boyd, chairman
 Anthony Frankham
 John Maasland
 Michael Smith
 Keith Turner
 Joan Withers


Senior management

Don Huse, chief executive officer
 Nick Forbes, general manager retail
 Tony Gollin, general manager aeronautical
 Chris Gudgeon, general manager property
 Judy Nicholl, head of people and performance
 Stephen Reindler, general manager engineering
 Robert Sinclair, chief financial officer
 Charles Spillane, general counsel and corporate secretary
 Tony Wickstead, head of information technology
 and telecommunications

This annual report is dated 24 August 2006 and is signed
 on behalf of the board by:



Wayne Boyd
 Chairman of the board



Anthony Frankham
 Director

Registered office New Zealand

Jean Batten International Terminal
 Auckland Airport
 New Zealand
 Telephone: +64 9 275 0789
 0800 Airport (0800 247 7678)
 Facsimile: +64 9 275 4927
 Email: corporate@akl-airport.co.nz
 Website: www.auckland-airport.co.nz

Registered office Australia

c/o KPMG
 161 Collins Street
 Melbourne
 Victoria 3000
 Australia
 Telephone: +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

Corporate secretary

Charles Spillane

Solicitors

Russell McVeagh

Auditors

Deloitte

Principal bankers

Bank of New Zealand

Airport overview

Location

The airport is 21 kilometres from Auckland's central business district – approximately 35 minutes by motor vehicle.

Opened

First day of operations: 24 November 1965
Officially opened: 29 January 1966

Operational

No curfew
Operational 24 hours a day
365 days a year

Land area

Total freehold land 1,500 hectares

Retail outlets

Approximately 100 outlets in the passenger terminals
Retail space in the passenger terminals: 12,309m²

Terminals

Jean Batten International Terminal

10 airbridge stands, 12 remote stands, with additional capacity possible

Air New Zealand Domestic Terminal

4 airbridge stands, 12 gate stands

Qantas Domestic Terminal

2 airbridge stands, 2 gate stands, 2 remote stands

Car parks

Over 8,400

Status

Second busiest airport for international passengers in Australasia

Employees

IAL has 278 operating staff (over 10,000 people work on airport)

Passengers

- 70 per cent of all international visitors to New Zealand arrive at and depart from Auckland Airport.
- Over 30,000 passengers are processed on average every day.
- Annually there are over 11 million passenger movements.

Aircraft

- 106 international flights and 335 domestic flights are processed every day on average.
- Annually the airport handles over 160,000 aircraft movements.

Runway

Single runway	(23L/05R) and associated taxiways and aprons
Stand-by runway	(05L/23R) which is usually the main taxiway
Latitude	37° 00' 29" south
Longitude	174° 47' 30" east
Direction	051/231 magnetic
Length	3,635 metres
Width	60 metres (including 45 metre structural width and 15 metre shoulders)

A programme to widen the runway shoulder by 7.5 metres on either side has recently been completed to facilitate the new Airbus A380 aircraft. Some link taxiways have been widened as part of this programme along with two aircraft stand modifications.

Aprons and taxiways

Apron surface and strength	Concrete; PCN 65/R/B/W/T
Taxiway width, surface and strength	30–44 metre concrete; PCN 65/R/B/W/T

Rescue and firefighting services (response unit)

The response unit has a variety of rescue vehicles that carry a range of firefighting, rescue extrication and communications equipment.

Rescue tender 1	Spartan Charger 4x4 (pump rescue tender)
Rescue tenders 2/3/4/5	Mills Tui Stryker 6 (major foam tender)
Rescue tender 6	Stryker 6-11000 (major foam tender)
Rescue fire control	Mitsubishi Challenger (command control vehicle)
Water tender	ERF
Jet boat	306hp Volvo Penta diesel engine with a Hamilton 271 Jet unit
Two lancer inflatable boats	60hp Yamaha outboard
Hovercraft	Griffin 2000 TDX powered by a 355hp Deutz turbo-charged air-cooled engine

Glossary of terms

Aeronautical revenue

Aeronautical charges are paid by the airlines as landing, aircraft parking, common area terminal services charges, and by passengers as an airport development charge.

Airside

The secure area of the airport, including the terminal facilities after emigration and screening processes, and the airfield.

AIAL

Auckland International Airport Limited.

Airbus A380

The world's largest commercial passenger aircraft, the A380 is expected to start flying into Auckland in 2008. It is 15 metres wider than a Boeing 747 and has a tail that reaches seven storeys high. It can carry 555 passengers – 150 more than the 747.

Airport company

Auckland International Airport Limited.

ASX

Australian Stock Exchange.

Airways New Zealand

State-owned air traffic management organisation.

Automated border crossing

AIAL is currently working with border agencies to develop an automated border crossing process using the latest technologies. Once proven, the automated border crossing process will use the new 'chipped' or 'e' passport.

Aviation Security Service (AvSec)

AvSec is responsible for undertaking a set of duties listed in Section 80 of the Civil Aviation Act 1990. Key duties are screening departing international passengers and domestic passengers, access controls, patrolling security designated areas and searching aircraft locations.

Board

The board of directors of Auckland International Airport Limited.

Bridge financing

A short-term funding facility used before a long-term funding facility is established.

Capital structure

The mixture of permanent long-term financing of a company including debt and shareholders' equity.

Civil Aviation Authority (CAA)

The CAA establishes civil aviation safety and security standards, and monitors adherence to those standards. It carries out accident and incident investigations and collates this material to establish an industry-wide safety picture. This becomes the basis of safety initiatives ranging from education campaigns to increased monitoring and regulatory action.

Departure fee

International departing passengers pay a \$25 departure fee made up of an airport development charge (ADC) and goods and services tax.

Directors

Members of the board of Auckland International Airport Limited.

Disclosure financial statements

Audited accounts for identified airport activities.

EBIT

Earnings before interest and taxation.

EBITDA

Earnings before interest, taxation, depreciation and amortisation.

HMSC-AIAL

Joint-venture company with HMSHost Inc providing food and beverage in the international terminal.

Hold stow baggage screening (HSBS)

The process of screening international checked-in baggage which is stored in the hold of the aircraft.

International Air Transport Association (IATA)

The governing body that regulates international air transport.

International Civil Aviation Organization (ICAO)

Specialised agency of the United Nations, to encourage the orderly growth of international civil aviation, establishing uniform standards for aircraft markings, airworthiness, and pilot licensing.

Joint User Hydrant Installation (JUHI)

The airport JUHI is operated through a joint-venture with BP, Shell, Exxon-Mobil and Caltex. Jet A-1 fuel is received at the Wiri Oil Storage Terminal and pumped on demand to the airport JUHI. Over 1 billion litres of aviation fuel is delivered to the airport annually.

Landside

The public areas of a terminal, those prior to emigration and security screening.

Masterplan

The process AIAL has undertaken to generate a blueprint for airport development for the next 50 years and beyond.

Medi-Chem Waste Services Limited

Medi-Chem is a hazardous waste processing company specialising in the treatment of a wide range of chemical, medical and pharmaceutical waste. Medi-Chem replaced the current airport incinerator with a state-of-the-art steam sterilisation unit.

Ministry of Agriculture and Forestry (MAF)

MAF quarantine officers work at every New Zealand border where people and goods enter the country, to ensure unwanted pests and diseases do not enter the country.

MCTOW

Maximum certificated take-off weight of an aircraft – the basis for landing charges revenue.

Non-aeronautical revenue

Revenue from retail, property, car parks, utilities and general commercial activities.

New Zealand Customs Service

The government agency which protects the community from potential risks arising from international trade and travel, while facilitating the legitimate movement of people and goods across the border.

NZX

New Zealand Exchange Limited.

Pax

Passengers.

Surface transport access

Road access.

Terminal expansion plan study (TEPS)

The study undertaken to develop a medium-term plan for the international terminal precinct.

Terminal services charge (TSC)

The charge to airlines to pay for common airside areas of the international terminal.

The company

Auckland International Airport Limited.

The airport

Auckland International Airport.

Waste Resources Limited

Subsidiary previously providing quarantine waste treatment.

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