Auckland Airport

Annual Report 2007

Front cover
The stylised 'A' logo featured on the cover of this year's annual report forms part of Auckland Airport's new visual identity. Its introduction represents the first step in a process of enhancing Auckland Airport's brand and customer experience. Our new identity places a New Zealand icon at its centre in the form of the koru – an abstraction of a native fern frond.

Inside front cover
Feathers of a New Zealand kakapo.

As New Zealand's Airport we are passionate about **representing our country** at its very best and delivering an experience that is unique to who we are as New Zealanders. By operating an outstanding airport with a distinct Kiwi voice, we will foster pride and advocacy from New Zealanders, and give international visitors their first welcome to what will be one of the most memorable and inspiring experiences of their lives. To deliver on this promise requires a clear and concise vision and strategy. The following pages of this report outline our strategy for New Zealand's Airport. We believe our strategy will translate into positive experiences for everyone who uses the airport, will contribute economic benefit to the country and will deliver sustainable value to our owners.

Contents

Grow New Zealand tourism and business

Arrivals

Every year, our airport welcomes nearly three-quarters of all the international visitors travelling to New Zealand. As New Zealand's premier gateway airport, we are at the heart of New Zealand tourism – our country's single largest industry and export earner. Achieving strong and sustainable growth in international visitors is critical to the long-term success of New Zealand's tourism industry and Auckland Airport's business prospects. We will also be a leading provider of New Zealand's transport and freight infrastructure, and will develop New Zealand's premier airport city to enable airport businesses to succeed.

The vibrant plumage of a kereru, the native New Zealand wood pigeon.

Provide a unique and compelling New Zealand airport experience

Authentic

We are dedicated to providing passengers and other visitors with a unique and compelling New Zealand airport experience. Our aim is to provide the warmest and most genuine welcome in the world. By operating an outstanding airport and portraying New Zealand's unique and distinctive culture and heritage, we will foster pride and advocacy from New Zealanders, and give international visitors their first welcome to what will be one of the most memorable and inspiring experiences of their lives.

The native New Zealand ponga fern and koru.

Deliver outstanding customer service

Awesome

We are a customer-focused business that demands excellence in everything we do. The long-term success of our business depends upon our ability to provide a unique and compelling value proposition to our customers (both external and internal) which meets or exceeds their expectations. We are focused on developing an outstanding and responsive customer service culture which will enhance our long-term customer relationships.

Gillian Danilo is a member of our friendly customer service department.

Operate in a safe, secure, sustainable and efficient manner

Aware

We are dedicated to achieving the highest standards of safety and security on our airport. We are committed to growing our business in a sustainable manner, proactively working to mitigate the environmental and social impacts of our operations and enhancing New Zealand's reputation as a clean, green, safe haven. This includes contributing positively to our local community. We will encourage the up-take of new technologies and better practices to work more efficiently.

Griff is part of the MAF Biosecurity New Zealand dog team that helps protect our country from unwanted flora and fauna.

Enhance our people capability and performance

Ambitious

Our people are critical to implementing our strategy and achieving our vision. We will improve our business by employing, retaining and motivating the best people and by promoting a vibrant, dynamic and high performance culture which is focused on working together to create an outstanding airport. In managing our business, we will adhere to the highest standards of governance, integrity and ethics. The guiding principles for our people are embodied in 'Our Spirit'.

We help the students of Mangere College reach for their dreams with our annual scholarship programme. Christian Tuimauga, year 12 and captain of the 1st XV.

Create long-term value for our owners

Asset

Through achieving our strategic objectives we will create long-term value for our owners. We are committed to delivering strong and consistent growth in returns to our shareholders by way of ongoing distributions and share price appreciation. We will maintain an optimal capital structure, minimising our cost of capital while also maintaining an appropriately prudent financial position.

A Tainui kete (woven flax basket) which is used to collect taonga or precious treasures.

Chief executive officer Don Huse (left)
and chairman John Maasland

Accountability

Chairman's report

During the past 12 months, the board and senior management have given considerable thought to the vision and strategy for Auckland Airport. This involved significant stakeholder input and analysis of a range of strategic initiatives.

Our conclusion is that Auckland Airport has a unique opportunity and obligation in its role as the premier airport gateway to New Zealand. We have adopted a new vision of representing our country, and new core values of being outstanding, uniquely Kiwi and welcoming.

The new strategy involves developing and growing our existing business, and enhancing our capital structure. Commitment to this vision and strategy has been fundamental to our consideration of the various strategic and value-enhancing initiatives which have arisen this year.

CHAIRMAN'S REPORT

BECOMING NEW ZEALAND'S AIRPORT

As New Zealand's premier gateway airport, Auckland Airport is proud to represent our country and to become New Zealand's Airport. Working with other significant organisations, we aim to enhance New Zealand's reputation as a world-leading tourism destination.

During the last 12 months, the board and senior management of Auckland Airport have given detailed consideration to the next five year stage of the company's evolution from 2008 to 2012.

This involved extensive benchmarking, customer interviews and other research to get an objective assessment of our current business model and performance. Our research reaffirmed that Auckland Airport is a key part of the New Zealand economy, and tourism and transport infrastructure. Activity involving Auckland Airport contributes approximately $19 billion to the New Zealand economy annually.

The research highlighted that Auckland Airport has a significant opportunity and obligation as New Zealand's premier gateway airport. Our customers and passengers are keen to see our airport adopt a stronger New Zealand-based positioning reflective of our distinctive New Zealand culture and heritage.

Our aspiration to become New Zealand's Airport was signalled in the 2006 annual report and featured on the cover of the last interim report. It is reflected in greater detail in the new corporate identity used for the first time on the cover of our 2007 annual report. This new identity is designed to better reflect a distinctive New Zealand look and flavour. It has been designed to reinforce our transition over time to representing our country as New Zealand's Airport.

Three core values underpin the company's strategy to become New Zealand's Airport:

- To be **outstanding**, with the highest performance levels that exceed the benchmarks and break new ground.
- To be **uniquely Kiwi**, which means providing a compelling New Zealand airport experience so that when passengers arrive and depart they feel a tangible New Zealand spirit and culture.
- To be **welcoming**, with the aim of earning a reputation as the warmest, most genuine airport in the world, with down-to-earth hospitality.

Six core strategies support our vision and core values. These are to:

- Grow New Zealand tourism and business.
- Provide a unique and compelling New Zealand airport experience.
- Deliver outstanding customer service.
- Operate in a safe, secure, sustainable and efficient manner.
- Enhance our people capability and performance.
- Create long-term value for our owners.

Our new vision, core values and strategy will continue to drive business performance, enhance service standards, improve stakeholder relationships and create a vibrant organisational culture. It will move Auckland Airport beyond its traditional focus on infrastructure and processes to become people and experience focused, with a uniquely New Zealand personality. Our new positioning is already guiding the development and design of the new airport facilities, including the international terminal's expanded arrivals facility and new Pier B. Both will open next year.

VALUE-ENHANCING OPPORTUNITIES

The strategic review of our business included a focused consideration of opportunities to grow our business beyond the existing site and options to achieve a more optimal capital structure.

During the year, a number of parties made approaches to Auckland Airport and expressed their interest in its ownership. Since then, several of these parties have conducted due diligence on the company. This interest is not surprising, given that Auckland Airport is the only standalone listed asset of its kind in Australasia. It is also widely recognised as a well-managed, efficient and broadly-based international airport business.

"Auckland Airport is on a well-defined path."

In considering these strategic opportunities, the board has at all times been focused on the best interests of Auckland Airport shareholders. In this context, it has had particular regard to enhancing the existing Auckland Airport business, growing it over the long term in a sustainable manner and increasing the financial efficiency of its capital structure. The desirability of New Zealanders being able to continue to invest in the Auckland Airport business through a stock exchange listing has also been top of mind.

The board will continue to assess those proposals on this basis and will keep shareholders and the market fully informed of developments.

STRONG FINANCIAL RESULT

Increased passenger volumes delivered another strong trading result, with revenues growing 5.3 per cent to $321.946 million. Earnings before interest, taxation and depreciation (EBITDA) increased 1.1 per cent to $242.799 million. This result was impacted by a provision of $9.925 million which was made in respect of the company's long-term incentive (LTI) plans for management. The significant increase in this provision resulted from the considerable rise in the company's share price in the month immediately prior to year-end. It is a non-cash item included in staff expenses in the 2007 statement of financial performance and is in respect of LTI plans covering four years. It is not directly related to the day-to-day operating performance.

Excluding the LTI provision, EBITDA was $252.724 million, an increase of 5.2 per cent over the previous year.

Surplus after tax was $91.981 million. Excluding the LTI provision, the surplus after-tax result was $101.906 million. This was marginally below last year's result.

Operating expenses were well contained, given the increase in Auckland Airport's operating capacity and asset base, and the higher operating costs across the company.

A detailed analysis of Auckland Airport's financial performance for the year is included in the Financial report on pages 38 to 44.

CAPITAL STRUCTURE AND RETURNS TO SHAREHOLDERS Your board of directors remains committed to improving the company's capital structure and to enhancing distributions to shareholders.

A fully imputed interim dividend of 3.75 cents per share (3.75 cents per share last year), amounting to $45.784 million, was paid in March 2007. The directors have declared a final ordinary dividend of 4.45 cents per share (4.45 cents per share last year), amounting to $54.365 million.

The final dividend will be paid on 19 October 2007 to shareholders on the register at the close of business on 12 October 2007. 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 2007 year amount to 8.20 cents per share (the same as last year) or $100.149 million. This equates to 108.9 per cent of the surplus after tax. Excluding the LTI provision, the payout ratio would be 98.3 per cent. 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.

"Increased passenger volumes delivered another strong trading result."

CORPORATE GOVERNANCE The board of Auckland Airport 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. These are incorporated into the board's charter.

Following 10 years as chairman, Mr Wayne Boyd retired from the board at the company's annual meeting on 25 October 2006. I was appointed to the board on 3 August 2006. In accordance with the company's constitution, I retired at the company's annual meeting and, being eligible to do so, was re-elected to the board. I was then elected as chairman by the board upon Mr Boyd's retirement on 25 October 2006.

Mr Boyd resigned as a member of the audit and risk committee, remuneration committee and nominations committee on 25 October 2006 and was replaced on each of those committees by me on that day.

OUTLOOK There are signs of passenger growth returning to the company's long-term average of approximately 5 per cent per annum. The level of the New Zealand dollar during the 2007 year and new services from Auckland Airport have clearly stimulated demand by New Zealand travellers. It is encouraging indeed that, notwithstanding New Zealand's higher exchange rate during that period, economic prosperity overseas has seen inbound tourism traffic continue to grow. Real signs of growth from new markets such as China and India are becoming increasingly evident.

There has also been significant progress in relation to aeronautical pricing consultation and a range of important retail concession tenders. Major projects to expand and upgrade the airport have been completed or progressed. Importantly, the company has commenced the development of the new northern runway.

Based on the current demand environment, the directors expect revenue and EBITDA growth for the 2008 year to be in the order of 7 per cent (based on EBITDA for the 2007 year excluding the LTI provision). This excludes any revaluation gain in connection with the company's investment property portfolio. As always, this view is subject to any material adverse events, significant one-off expenses, deterioration due to the current global market conditions or other unforeseeable circumstances.

The surplus after-tax result will depend on the outcome of any shareholder restructuring, as this may involve a new corporate and capital structure with increased debt levels and consequently interest costs.

Auckland Airport is critical to New Zealand's tourism and transport infrastructure. The board and management remain dedicated to the long-term growth of our airport, such that it provides safe and secure services, and meets or exceeds all of the requirements of its customers and other stakeholders.

I wish to acknowledge the contribution and support from my fellow board members and the senior management team in my inaugural year as chairman of Auckland Airport, a year of such considerable progress on so many fronts.

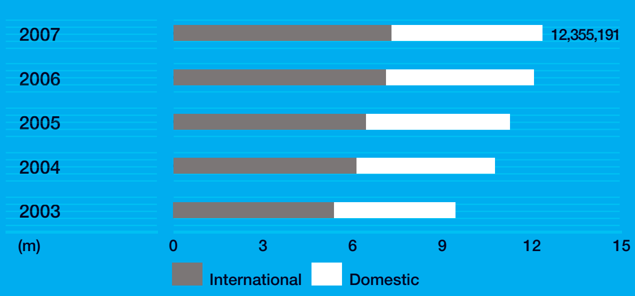
The company is on a well-defined path, with a clear strategy to represent our country as New Zealand's Airport.

On behalf of the board,

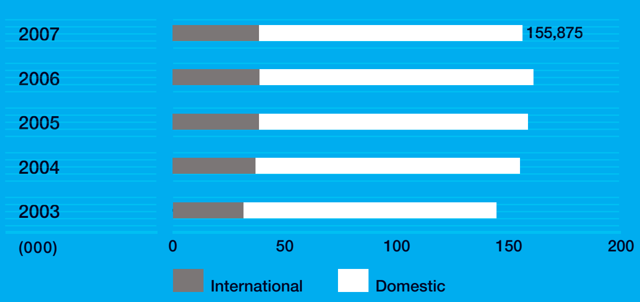
John Maasland
Chairman
23 August 2007

RESULTS AT A GLANCE

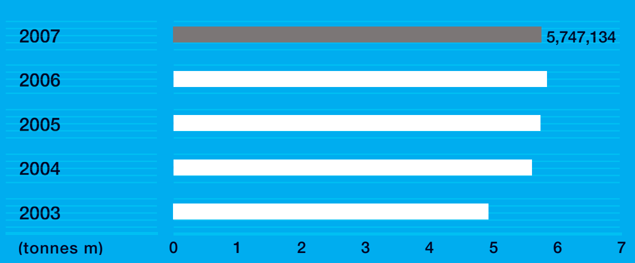
Passenger movements



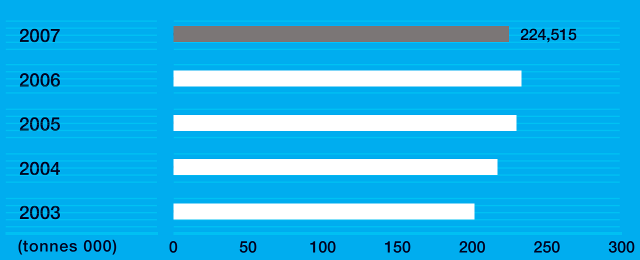
Aircraft movements



Maximum certificated take-off weight

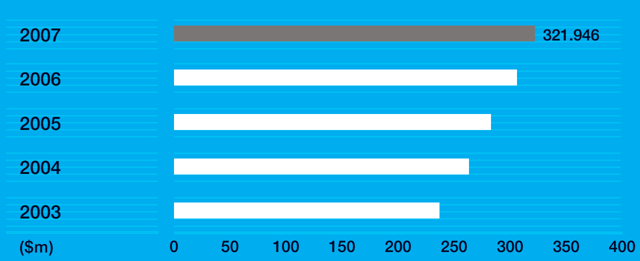


Cargo

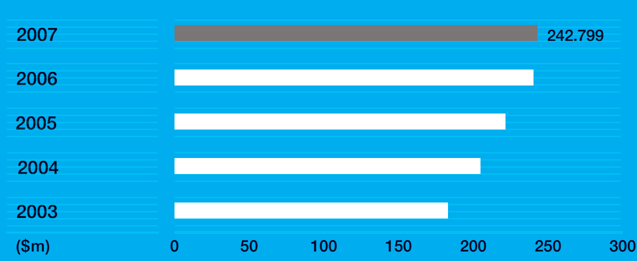


Source: Statistics New Zealand

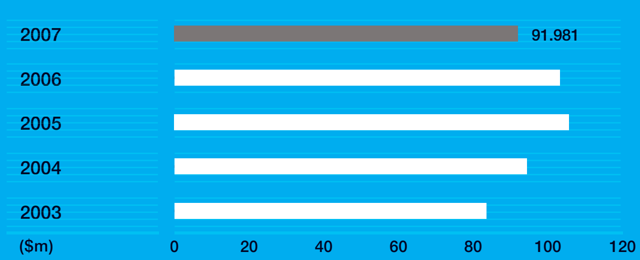
Revenue



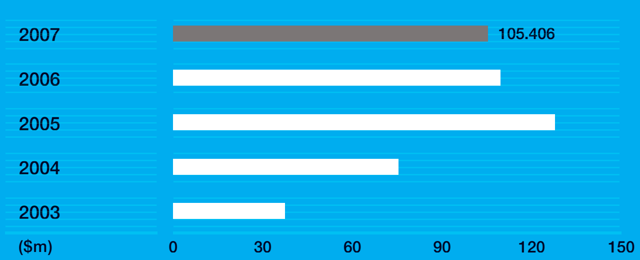
EBITDA



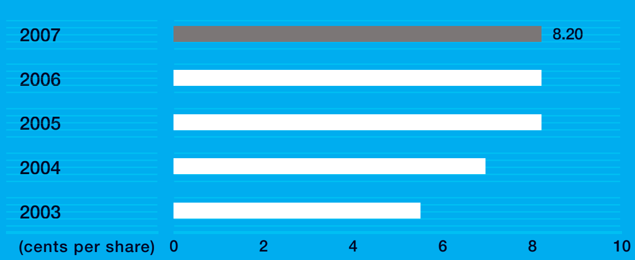
Surplus after taxation



Capital expenditure



Ordinary dividends



Earnings per share

HIGHLIGHTS 2007

A major achievement for 2007 was the development of a vision and strategy to become New Zealand's Airport.

PERFORMANCE HIGHLIGHTS FOR THE YEAR ARE LISTED BELOW UNDER THE SIX NEW STRATEGIC THEMES.

Grow New Zealand tourism and business

Record passenger numbers of
12,355,191
up 2.4 per cent.

Major airfield, terminal, retail, car parking and property projects completed.

Further terminal expansion projects underway.

Operate in a safe, secure, sustainable and efficient manner

New screening requirements for liquids, aerosals and gels introduced.

Sustainability reporting
enhanced.

An Airport-wide staff travel plan introduced.

Provide a unique and compelling New Zealand airport experience

The Te Manukanuka o Hoturoa airport marae blessed and opened.

A new 2,200 m²
domestic terminal retail precinct completed.

New retail concessions tendered or awarded.

Enhance our people capability and performance

A competency framework developed to reinforce high performance.

New performance
management system progressed.

Continued focus on people, health and safety improvements.

Deliver outstanding customer service

The domestic terminal
multi-level car park
completed.

Forecourt areas at both terminals upgraded.

Customer service facilities enhanced.

Create long-term value for our owners

Revenue of
$321.946 million
up 5.3 per cent.

EBITDA of
$242.799 million
up 1.1 per cent.

Total ordinary dividends of 8.20 cents per share, totalling
$100.149 million

From left to right: Michael Smith, Joan Withers, John Maasland (chairman), Anthony Frankham and Dr Keith Turner

Across the board

Board of directors

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, AFInstD

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 10 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.

John Maasland Chairman
MA (Cantab)

John Maasland was appointed a director of the company in August 2006 and took over the chairmanship following Wayne Boyd's resignation at the company's annual meeting in October 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 in 2003, a position he relinquished in June 2007. 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, Delegat's Group Limited, NZ School of Music Limited, Waterman Holdings Limited and Woosh Wireless Limited.

Anthony Frankham
FCA, FAMINZ, AC Inst Arb (UK), AFInstD

Anthony Frankham was appointed a director of the company in 1994 and chairs the board's audit and risk 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, is a consultant to Grant Thornton Auckland Limited, and was a member of the New Zealand Takeovers Panel until 31 December 2006. 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, FNZM

Keith Turner was appointed a director of the company in 2004. He has 38 years' experience in the New Zealand electricity industry, the last 20 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 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 break-up, and as a special 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 break-up of ECNZ.

CHIEF EXECUTIVE OFFICER'S REPORT

BECOMING NEW ZEALAND'S AIRPORT The development of our vision and strategy was a key milestone during 2007. The vision and strategy to become New Zealand's Airport represent an evolutionary step forward and a repositioning of the company for the future, rather than a radical change of direction. We commenced this journey with our 2006 annual report entitled Haere mai – Welcome to Our Airport. Our 2007 interim report, entitled Haere mai – Welcome to New Zealand's Airport, further endorsed our strategy and commitment to represent our country.

Underpinning the way forward is the company's 20 year masterplan. The plan charts the aeronautical, commercial and land-use developments required to meet expected growth in demand for the next 50 years and beyond. Passenger movements are projected to reach 24 million annually in 2025, up from 12 million today.

The new strategic positioning is already being implemented in the interior design and fitout of current major projects, including the international terminal expanded arrivals area and Pier B. It is also guiding our approach to achieving outstanding performance over time.

This report tracks key initiatives that are either underway or planned. These key initiatives all support our six core strategies to:

- Grow New Zealand tourism and business.
- Provide a unique and compelling New Zealand airport experience.
- Deliver outstanding customer service.
- Operate in a safe, secure, sustainable and efficient manner.
- Enhance our people capability and performance.
- Create long-term value for our owners.

"We are at the heart of New Zealand tourism."

COMMITMENT TO NEW ZEALAND TOURISM As New Zealand's premier gateway airport, we are at the heart of New Zealand tourism, which is the country's single largest industry and export earner. Inbound tourism growth is critical to the long-term success of New Zealand's travel industry. It is the most critical value driver for our business.

To help grow New Zealand tourism, the company has a strategy for air services development (referred to in the Aeronautical section opposite). We aim to market new routes to airlines with fleet availability and where our analysis indicates such routes can become profitable for them.

The company made a submission on the Draft New Zealand Tourism Strategy 2015. This reflected our commitment to supporting aspirational targets through to the Rugby World Cup 2011 and beyond.

The company will positively contribute to New Zealand's reputation as a world-leading tourism destination. It will continue to invest in New Zealand's airport infrastructure, and work alongside other infrastructure and service providers to ensure that Auckland Airport and its environs meet the needs of the travel and tourism industry (inbound and outbound).

We are keen to develop win-win opportunities with our airline customers, tourism agencies and on-airport operators. It is becoming increasingly important for these organisations to work collaboratively. By so doing, New Zealand can continue to expand its international competitiveness as a clean, green, safe haven destination.

CARRIERS The 2007 year has again been a relatively stable one in terms of carriers and seat capacity into and out of Auckland Airport. Domestic traffic accounted for 76 per cent of all aircraft movements. This was largely unchanged from the previous year.

Carrier highlights included Air New Zealand beginning services to Shanghai in November 2006, flying three times a week, and Qantas increasing its Brisbane services by four times a week, doubling daily services from April 2007.

Air New Zealand has signalled the launch of Vancouver services from November 2007. Air New Zealand services will be further promoted throughout China under the airline's codeshare with Shanghai Airlines and Air China. Services from China are expected to increase from two to five a week from October 2007.

There has been some rationalisation by carriers such as Air New Zealand and Qantas in the trans-Tasman market. Aircraft 'gauge' changes have also occurred. This has impacted on the growth of landed tonnage.

Despite this small reduction in landed tonnage this year, there are good signs for a return to long-term trend traffic growth levels over the coming years. High load factors and the delivery of new aircraft capacity provide support for such growth. Auckland Airport is keen to encourage the expansion of air services development in coming years.

Seven airlines currently servicing Auckland have placed orders for the new Airbus A380 aircraft. At this stage, it appears that the first services to Auckland will be introduced in the first or second quarter of calendar 2009. Following runway widening, and apron and terminal upgrades over the past two years, Auckland Airport is A380-capable.

The company is pleased to note Pacific Blue's intention to commence domestic operations and the possibility of additional international services. Auckland Airport is working co-operatively with Pacific Blue to provide appropriate facilities at the domestic terminal. Pacific Blue's entry to the New Zealand market is well timed in light of the extreme makeover and upgrading of the domestic terminal precinct.

RECORD NUMBERS OF PASSENGERS 2007 was another record year in terms of passenger movements. Total passenger numbers increased 2.4 per cent to 12,355,191. International passengers (excluding transits and transfers) were up 2.6 per cent to 6,373,427. Domestic passengers were up 2.1 per cent to 5,068,794.

The record passenger numbers were achieved in spite of a slowdown in domestic economic growth and a high New Zealand dollar prevailing during the year that has potentially made our country less attractive to overseas visitors.

The second half of the financial year was particularly buoyant. Solid growth was experienced from Auckland Airport's core international markets, Australasia, the United Kingdom and the United States, as well as newer markets such as China and India.

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. Aeronautical revenues for the financial year increased 5.2 per cent to $152.543 million.

On 1 July 2006, Auckland Airport established a new aeronautical division with full responsibility for revenue and cost outcomes. This separate aeronautical division has integrated aeronautical activities, including revenues, operations and route development. This allows the company to engage with airline customers in a fully integrated manner with respect to service quality, supply and pricing.

Aeronautical pricing

After three years of detailed and constructive engagement with major airline customers, the company reset its aeronautical prices to take effect from 1 September 2007. Landing charges will rise by 2.5 per cent per year for the next five years from 1 September 2007. The airport development charge (ADC) will remain the same at $25 (inclusive of GST) per departing international passenger 12 years and over until 30 June 2008.

A key outcome of this aeronautical pricing consultation round is that travellers will no longer pay a departure fee at Auckland Airport from 1 July 2008. The ADC will be renamed the Passenger Service Charge (PSC) and will be levied directly on the airlines. Passengers will not have to pay the charges at the airport. This will significantly improve the passenger experience and bring Auckland Airport into line with best practice at other international airports around the world.

From 1 July 2008, the PSC levy on airlines will be split between departing and arriving passengers and will increase 50 cents (per international departure and arrival) each year for three years. The policy of having no charge for children under 12 years will continue. The first increase in the PSC will coincide with the opening of the new expanded arrivals facility and new pier at the international terminal. Together these new facilities will cost approximately $125 million.

The modest increases are expected to be below inflation over the period. They are considered to be fair and reasonable, especially given Auckland Airport's significant investment programme over the last five years, and anticipated ongoing investment.

A number of important concessions were made on both sides as part of the consultation process. Auckland Airport will credit the airlines with more than half of the unanticipated gain in the value of the airfield land and has agreed to a 10 year asset revaluation moratorium. Furthermore, the opportunity cost valuation approach adopted for airfield land was in line with the Commerce Commission's views.

An independent peer review by international economic consultants, Frontier Economics, confirmed the appropriateness of Auckland Airport's approach. Benchmarking against industry data on airport costs shows that Auckland Airport compares favourably with its closest counterpart in the region, Sydney Airport, as well as other airports in Australasia and worldwide.

In proposing the new pricing structure, the company submitted a detailed pricing proposal to its airline customers in July 2006. A comprehensive response was received in November 2006 from the Board of Airline Representatives New Zealand Inc (BARNZ), as well as from individual airlines, including Air New Zealand. These responses were worked through in detail, and the issues raised were considered with an open mind and in good faith.

The company's objective was to reach a commercial and amicable agreement with the airlines on aeronautical charges. Such an outcome would have reflected the interests of both parties and their joint responsibilities to the travelling public and New Zealand's tourism industry.

Given the efforts of all involved, it is unfortunate that Air New Zealand has sought a judicial review of the pricing consultation process and its outcomes. Auckland Airport categorically refutes Air New Zealand's claims.

The last substantive review of aeronautical charges at Auckland was in the period 2000 to 2002, when landing charges were reset. Auckland Airport wishes to acknowledge the constructive engagement of the airlines in this latest aeronautical pricing consultation process. Auckland Airport is keen to use the comprehensive framework developed through this latest consultation round as a basis for future pricing consultation with the airlines.

The company has also consulted with its airline customers on airfield and terminal development projects. More information on these key projects is set out in the following pages.

"Record passengers were achieved despite slower economic growth and a high Kiwi dollar."

Air services development

An important area for potential business growth is air services development. International experience demonstrates that there is scope to stimulate additional air services to and from Auckland Airport. This would be over and above organic growth levels.

Success in such endeavours depends on well-researched and targeted business case analysis and presentation to potential carriers. It will require ongoing commitment and the development of long-term relationships.

Project Stellar*

A complete revamp of service delivery capability, Project Stellar*, has been integral to the aeronautical division's focus on enhanced customer services. A key area has been the introduction of new call centre technology. This will promote an improved response and a one-stop shop for all enquiries, fault notifications, complaints and follow-up action.

Associated with this change is a substantial upgrade of Auckland Airport's operational centre and emergency response centre. This has built-in redundancy and back-up facilities to ensure service delivery continuity during any airport emergency.

Commerce Act Review

In April 2007, the Ministry of Economic Development (MED) released a discussion document on possible changes to the regulatory control provisions of the Commerce Act.

Auckland Airport responded to this document in general support of many of the changes proposed by MED. However, the company emphasised that these should supplement rather than override industry-specific regulatory provisions such as those provided for in the amended Airport Authorities Act 1966, which sets out the consultation and disclosure requirements appropriate for New Zealand airports. Over almost 20 years, this has resulted in airport charges which are appropriate against relevant international benchmarks and timely investment in new capacity.

Heightened security screening

Following the foiled terrorist plot at London's Heathrow Airport in August 2006, Auckland Airport successfully introduced at very short notice a new regime for liquids, aerosols and gels (LAGs) screening for US-bound flights. This affected approximately 10 per cent of Auckland's outbound international passenger traffic. In March 2007, in response to Australian and wider global requirements, LAGs screening was extended to all outbound and transiting international passenger traffic.

These changes involved the New Zealand Aviation Security Service, airlines and Auckland Airport. They were introduced with minimum interruption to normal business, and were generally well-understood and received by travellers. The New Zealand experience has compared favourably with overseas airports. This success is a credit to the collaborative efforts of all involved.

Low visibility landing equipment

The company is working with Airways New Zealand (air traffic control) and airlines to install new equipment to allow aircraft to operate in low visibility conditions such as fog. The work involves implementing an Instrument Landing System to a Category III B level. The system will be introduced in stages and is expected to be operational in May 2008.

New aerobridge capacity

The provision of new aerobridge-serviced international gates is part of the first stage of the international terminal Pier B project. These gates represent the first new international aerobridges since 1992.

The Pier B gates are designed to accommodate the new Airbus A380 aircraft. They will also handle aircraft types ranging from other wide-bodied aircraft such as the Boeing 747-400, to the smaller Boeing 737 and Airbus A320 aircraft types. The two new Pier B gates are expected to be operating from September 2008.

Clockwise from top: The greatly enhanced retail precinct at the domestic terminal; screening for liquids, aerosols and gels; the expanded arrivals area at the international terminal.

RETAIL BUSINESS

Our retail business performed strongly this year. Income was up 8.1 per cent to $93.744 million. This resulted from new retail developments, especially in the domestic terminal, plus re-tendering concessions and increased sales across a variety of product categories.

Retail income per international passenger, including transit and transfer passengers, was $12.87, up 5.4 per cent over last year.

Independent research on the preferences of passengers and other visitors was conducted during the year for food and beverage services, duty free, car parking and foreign exchange services. This research confirmed travellers are looking for choice, quality, authenticity and specialist offerings at competitive prices. The data is being used to refine existing retail offerings and new concession tenders.

Domestic terminal

The new 2,200 square metre retail precinct at the domestic terminal opened on 16 December 2006, on time and on budget. The precinct can be accessed from the new multi-level car park via a covered footbridge that is proving a popular and appreciated service upgrade.

The new precinct was quickly tenanted. New or relocated shops, services and dining options include Whitcoulls, Sunglass Hut, New Zealand and Beyond, Sunflowers Florist, Bank of New Zealand, Hayama Sushi and Noodle, McDonald's, Take off Espresso, The River Café, Bach Café, Ranges Bar and Café, Espresso Plus and Tank Juice Bar. Velluto Espresso Bar remains airside. Further stores will be opened within other areas of the terminal by December 2007.

International terminal

In the international terminal, expansion of the arrivals area is on track for completion in April 2008. The duty free area will be doubled in size, making it the most extensive arrivals duty free offering in the Asia Pacific region. This new facility will provide a much wider product range and greater choice for passengers, and an increasingly convenient method of purchasing duty free.

Enlargement and upgrade of the food court and retail area in the international departures area is also being actively considered.

A five year concession for an adidas concept store airside in the international terminal was awarded in May 2007. The 150 square metre flagship store opened in July 2007. It offers a wide range of licensed apparel, including team sportswear for the All Blacks in time for the Rugby World Cup 2007 in France. The five year agreement means adidas will continue its unique Kiwi sports offering through to the Rugby World Cup 2011.

New concessions were tendered during the year for car rentals, duty free and foreign exchange, with significant benefits for passengers and visitors alike. An uplift in sales and concession revenues will reflect these extended and enhanced offerings.

Duty free

In May 2007, a request for tenders was issued for the operation of duty free retail stores until June 2015. DFS New Zealand Limited (DFS) was awarded the licence to operate duty free stores at the airport for seven years from April 2008. This is an exciting development from the shopper's perspective. It will bring significant enhancements focused on delivering a uniquely New Zealand retail experience and value for money through special deals, promotional vouchers and rewards programmes.

DFS will stock a much wider variety of goods at prices that will match or better duty free airport prices in Australia and further afield. A strong price comparison procedure across product ranges is at the core of the new licence. Independent research shows that travellers compare on-airport duty free prices to local high street prices, online shopping, parallel import retailers and overseas retailers.

DFS will be investing over $18 million to redevelop and expand the duty free shopping facilities at Auckland Airport. DFS will introduce a number of new retail concepts and a greatly expanded line-up of New Zealand and international brands.

DFS is one of two duty free operators that have operated at the airport over the past 20 years. The move to a single operator will reduce duplication and, with the much increased space, will enable a considerable broadening of the product range. Auckland Airport acknowledges with great appreciation the long-standing partnership with Regency Duty Free and its staff, and the contribution they have made to the traveller's experience at Auckland Airport.

Car rentals

Following strong growth in demand for services, new five year licences were awarded in May 2007 for rental car operators. This has resulted in an increase of one operator to five at the terminals. They are highly regarded international operators Hertz, Avis, Budget, Thrifty and Europcar. The selection caters for travellers' needs and budgets.

The new licences came into effect on 1 July 2007. Auckland Airport has improved rental car facilities at the domestic terminal, with new premises on the ground floor of the new multi-level car park. This means travellers can walk under cover between the facilities and the terminal. Auckland Airport is working on long-term plans to further improve rental car parking facilities at the international terminal.

At right: The new multi-storey car park and covered pedestrian bridge at the domestic terminal; chocolate and wine shop Chocovino at the international terminal (below).

Foreign exchange

The new five year contract for foreign exchange services at the airport was awarded to Financial Services NZ Limited (Travelex) in May 2007, with effect from October 2007. The new arrangement will make it easier for passengers to change money when leaving or returning by increasing the number of foreign exchange outlets and creating more specialised premises.

Travelex and Auckland Airport will maintain competitive and transparent pricing by regularly monitoring prices at other airports and banks. Foreign exchange is a key part of Auckland Airport's retail offering. Travelex is the world's largest foreign exchange specialist and has been operating in New Zealand since October 1982, including at Wellington and Queenstown airports.

Auckland Airport has enjoyed a long and excellent relationship with Bank of New Zealand (BNZ) and its foreign exchange service. BNZ will continue to provide some banking services on-airport. We acknowledge BNZ and its staff for their commitment and professional service over many years.

Auckland Airport expects that the new duty free licence, combined with the recent foreign exchange and car rental concession tenders, will add approximately $7 million in minimum annual guaranteed retail revenue in the 2008 financial year and $10 million in the 2009 financial year.

CAR PARKS Car park income was $25.878 million, a rise of 4.1 per cent. Car parking at the domestic terminal performed well. Revenue growth slowed at the international terminal due to an easing in the growth of New Zealand travellers, higher fuel prices and the increased use of public transport by passengers.

The multi-level car park at the domestic terminal was completed in July 2006, with covered access to the terminal for travellers. The facility provides 850 extra spaces, including premium under-cover parking. Since opening, it has traded well, with the business parking on Level 1 proving especially popular.

In addition, the company added 474 spaces for long-term parking at the international terminal.

"Research confirmed travellers are looking for choice, quality, authenticity and specialist offerings at competitive prices."

Car park operations at the domestic and international terminals were outsourced during the year to Wilson Parking, an experienced Australasian operator. The business is operated under the Auckland Airport Parking brand. Wilson Parking manages and operates the car parks, with Auckland Airport retaining responsibility for service levels, branding across the airport and tariffs. The forecourt operation, which includes traffic management in the drop-off and pick-up areas and supervision of the taxi facilities, was also outsourced.

Outsourcing has already enhanced services for travellers, and has achieved operational efficiencies and increased revenue. Importantly, systems and procedures are now in place to manage increasing passenger numbers. Greater peak-time usage is expected in the future, with safety and security management kerbside becoming ever more important.

A greater range of car parking services is now provided to accommodate both long and short-term options, as a result of recent upgrades to facilities at the domestic and international terminals. Parking tariffs reflect the customer's length of stay, the proximity of the car park to the terminal and whether the customer chooses covered or uncovered parking.

Over the past year, extensive research has been conducted into the car parking needs of travellers and visitors. In response to the findings, a number of enhancements have been made. These include a pick-up, drop-off car park and a long-stay car park at the domestic terminal. Further options are planned to meet the needs of different travellers.

PROPERTY

The company earns rental revenue from tenants in its terminals and cargo buildings, and from leasing standalone investment properties. Rental from these property assets totalled $33.267 million for the year, compared with $31.502 million last year. The 5.6 per cent increase arose from leasing newly completed developments and rental uplift on existing leases following rent reviews.

During the year, the company continued to make strong progress with its investment property business. A number of new development projects were completed. These included the construction of:

- Office and warehouse premises for New Zealand Van Lines ($7.8 million), Fliway Logistics ($5.0 million) and Expeditors International ($6.0 million).
- An extension to FedEx's existing warehouse facilities ($1.8 million).
- A new childcare centre for Lollipops Educare ($1.2 million).
- An extension and refurbishment of Air New Zealand's cargo and freight facilities ($3.0 million).
- An extension of the Emirates VIP lounge.

Nearing completion is a refurbishment of Air New Zealand's ramp offices in the international terminal pier.

New developments recently commenced include:

- A new 2,000 square metre hangar to be leased to Air National for an initial term of 12 years. Air National specialises in private air charter throughout New Zealand, Australia and the South Pacific. The hangar is currently under construction in the aircraft maintenance precinct at a cost of $2.7 million.
- A 1,630 square metre extension to Barber Logistics' existing warehouse facility currently being constructed at a cost of $2.4 million.

The development 'pipeline' remains healthy, with a number of other commercial property projects under negotiation. These include the establishment of a budget hotel within the airport precinct as well as a four to five-star hotel immediately adjacent to the international terminal and future domestic terminal.

Following the appointment of a new general manager for property in June 2006, internal capability has been boosted with the recruitment of three senior asset managers and a development manager. The company is well-positioned to manage and expand its portfolio of investment-grade industrial, commercial, office and retail properties while maintaining its prudent approach to managing risk.

Each year, an independent valuation of the company's investment portfolio is undertaken. Registered valuers, Seagar & Partners (Auckland) Limited, completed the 2007 valuation. Details of the revaluation are set out in the Financial report.

This non-cash revaluation gain is taken directly to the revaluation reserve and does not form part of the surplus after-tax result. In 2008, the revaluation will be included in the profit and loss statement under the International Financial Reporting Standards, which the company is adopting.

Auckland Airport received a notice of claim under the Public Works Act in September 2006 from the Craigie Trust in regard to 36.4 hectares of land acquired for airport uses during the 1970s. The land, a small part of the company's total holding, lies east of George Bolt Memorial Drive and north of Tom Pearce Drive. It forms an integral part of the airport and is zoned for airport activities. The company is vigorously defending its entitlement to retain ownership of this land.

INFORMATION TECHNOLOGY AND TELECOMMUNICATIONS

Information technology and telecommunications (IT and T) continues to be an increasingly important aspect of airport management. Considerable progress was made over the 2007 year.

In particular, the company continued to focus on timely delivery of information, expansion of the airport-wide management network infrastructure and its commitment to ensure a secure, high-availability technology environment. There has been additional focus this year on updating the IT and T strategic plan to ensure that it aligns with Auckland Airport's new vision and strategy, and long-term masterplan.

Key IT and T projects undertaken during the 2007 year include:

- The upgrade of the airport operations contact centre, which included a physical refit of the office environment, upgrade of telephony and radio communications systems, and upgrade and consolidation of the incident management computer system.
- Implementation of a new disaster recovery site for the airport operations contact centre.
- Ongoing expansion of the airport's wireless network infrastructure that delivers public access to the internet and remote operational access to the Auckland Airport company network.
- Implementation of the FlightTXT, a text short message service (SMS) that can text flight arrival and departure information to people's mobile phones directly from the Auckland Airport flight information system.
- Business case development, analysis and planning for the replacement of the current telecommunications technology on the wider airport campus.
- Ongoing development of the company's management information system. This entails the implementation of a data warehouse and business intelligence analysis tool for enhanced business reporting and consolidation of financial and operational information.
- Ongoing enhancement and expansion of the JD Edwards Enterprise Resource Planning application, including:
  - Installation of the real estate application module for the property business team.
  - Implementation of the Case Manager incident management application module for operations and customer service teams.
- Continued upgrade of the campus-wide managed network core to meet growth demands.

MAJOR CONSTRUCTION PROJECTS

The company is entering the final stages of a four year, $500 million capital expenditure programme that will significantly enhance the overall passenger experience and encourage the growth of both domestic and international tourism. Significant new projects are also underway or planned under the company's masterplan published in March 2006. These provide a clear growth path to achieve the most efficient and effective development of the airport to meet volume growth and ever-increasing service standards.

Already completed are:

- The new upper level on the international terminal ($47 million).
- The hold stow baggage screening facility ($29 million).
- Rehabilitation and widening of the main runway ($37 million over four years). This was judged Project of the Year by the New Zealand Project Management Institute for exemplary management.
- Hard stands for parking aircraft at Pier B ($28 million).
- International check-in facilities ($12 million).
- The multi-level car park at the domestic terminal ($15 million).

Domestic terminal upgrade

The extreme makeover of the domestic terminal continues, with major elements completed and work scheduled to end in December 2007. The 2,200 square metre shopping and dining area between the Air New Zealand and Qantas check-in areas opened in December 2006, providing a spacious, stylish and relaxing environment for travellers.

New facilities were also completed in December 2006 for regional services at the eastern end, including a new lounge, check-in area, separate baggage claim facilities and a café. All domestic travellers, main trunk and regional, are now able to experience high-quality services at Auckland Airport.

The next stage in the domestic terminal upgrade is underway and involves the extensive renovation of the Air New Zealand domestic check-in area.

Air New Zealand is contributing $13 million of the total $42 million cost of the domestic terminal upgrades. Auckland Airport's return on this investment will be from additional rental, aeronautical charges and retail income.

International terminal expanded arrivals

The arrivals and border agency processing area of the international terminal is being expanded to reduce congestion and processing time at peak volumes. The project will also greatly enlarge and improve the arrivals duty free retail offer. The expanded arrivals area will connect to the new Pier B. The main

Bottom: The new adidas concept store and retail store Guess airside at the international terminal (right).

part of the project is due for completion in April 2008, with the refit of the secondary line being completed in June 2008. The project has a cost of approximately $85 million over two years.

The position of the new extension takes into account the international terminal's future development that includes a new pier, or Pier B, which will be further to the west.

The next stage of expansion of the international terminal (referred to as stage 3B) is being considered. Earlier planning was to complete the project in 2012 or 2013. Serious consideration is now being given to an earlier deadline before the Rugby World Cup 2011. Stage 3B is expected to cost approximately $160 million over two and a half years (excluding ancillary roading and car parking costs). Auckland Airport is continuing to consult with the airlines and joint border agencies on this important project.

A380-capable Pier B at the international terminal

Work on the new A380-capable Pier B at the international terminal is underway. Completion is planned for September 2008, in time for the expected arrival of Airbus A380s. Pier B is budgeted to cost $40 million. It will connect to the expanded arrivals area in the international terminal and provide two contact gates, each with two airbridges to connect to the upper and lower decks of two wide-bodied aircraft. Alternatively, these gates can provide air bridge services simultaneously to four narrow-bodied aircraft such as Boeing 737s and Airbus A320s. The new pier will meet continuing increases in passenger numbers and subsequently reduce the need for passengers to take buses to and from aircraft.

Northern runway

The development of the first stage of the northern runway has commenced and construction will start in October 2007. It is expected to be operational in late 2010 or early 2011. The runway will accommodate general aviation and smaller, local airline operators, freeing up capacity on the main southern runway.

The first stage includes a 1,200 metre runway, which will be extended as demand requires over time. The final length of the northern runway will be 2,150 metres.

It is an exciting development for Auckland Airport, providing a catalyst for future property and aviation development.

HMSC-AIAL LIMITED

HMSC-AIAL Limited traded well during the year. The 50/50 joint venture operates food and beverage facilities at the international terminal. Auckland Airport's 50 per cent share of the HMSC-AIAL's profit was $0.904 million, up 31.4 per cent on 2006.

New facilities on the new second floor pier area have proved extremely popular, with increased travellers contributing to the positive performance. They include Burger King, a café and a lounge bar offering extensive views over the airfield and Manukau Harbour. Auckland Airport's passenger separation project had resulted in the closure of all the joint venture's previous airside food and beverage facilities.

Independent research on the preferences of travellers and other visitors was conducted during the year for food and beverage. This information has been used to drive operational improvements that include a wider range of product choices.

SURFACE TRANSPORT ACCESS

Efficient, reliable and sustainable surface access to the airport is a key element of the company's masterplan to provide for the region's aviation needs to cope with the expected increase in passenger movements over the next 50 years.

Auckland Airport is concerned at the persistent difficulty travellers, staff and businesses are having accessing the airport. By 2015, which is not far away, land transport demand at the airport is expected to increase by around 90 per cent. An additional 60,000 visitors are expected for the Rugby World Cup in 2011. Most of them will arrive and depart through the airport. Ensuring that surface access to the airport is fully developed and operating in a sustainable, world-class manner is crucial.

Fortunately these increased numbers will be off-season and, with improved public transport and school holiday changes in place, these higher volumes should be handled with greater efficiency than might otherwise be the case.

Auckland Airport is working with territorial and regional government planners to foster improved road and public transport infrastructure to enhance airport access, including a better connection with central Auckland and key regional hubs. Initiatives include:

- Clear access routes – To achieve reliable travel times, work is being undertaken with transport authorities on establishing clear access routes from key areas of Auckland and the eastern suburbs of Manukau City, and on championing the completion of critical links between the state highway and local road networks.
- Western ring route – Auckland Airport, Land Transport New Zealand (LTNZ) and the government seek to accelerate the completion of the western ring route, including doubling capacity on the Manukau Harbour crossing.
- Bus lanes and services – Another initiative involving Auckland Airport, transport and road controlling authorities, bus operators and local councils is improving overall bus lanes and giving consideration to allowing higher occupancy vehicles such as taxis and shuttles to use bus lanes.
- Airport rail – The company has made provision for a rail link in its 20 year masterplan and will work with regional authorities to protect this option for the future.
- Airport transport centre – The company plans to future-proof the airport precinct with a transport centre close to the terminals that will provide a central location for taxis, shuttles and rail.

- *lift* staff travel plan – Auckland Airport has joined forces with five other major airport-based companies to develop *lift*, a staff travel plan to reduce reliance on single-occupancy cars by providing and promoting sustainable travel options.

The company continues to advocate strongly for the completion of the Manukau Harbour crossing. It is a critical transport link, and has tourism, economic and investment imperatives at stake. In particular, the crossing will play a key role during the Rugby World Cup 2011, when an additional 60,000 visitors are expected.

In its submission to LTNZ in December 2006, Auckland Airport strongly supported the objective of completing the western ring route by 2015, or earlier. However, the company opposed the introduction of tolls on an ad hoc basis as a source of funding. It would have distorted the use of the transport network and impeded the advancement of an integrated, sustainable transport system. Auckland Airport favours short-term interim funding through a targeted regional fuel tax or additional Crown allocation, to complete the route within 10 years.

WHENUAPAI AIRPORT Auckland Airport continues to play a full and constructive part in the public debate about Whenuapai Airport. The company's involvement in this matter is not intended to prevent competition. Instead, there are critical issues that need to be considered at a regional and national level.

We believe Auckland Airport offers competitive services and facilities at an appropriate pricing level. The existing airport is capable of meeting the region's aviation needs for the next 50 years and beyond.

In March 2007, Auckland Airport made a submission to Waitakere City Council on the proposed plan change regarding Whenuapai Airport. It is the company's view that the proposal for a second international airport at Whenuapai is unrealistic and bad economics. It raises significant environmental and sustainability issues. It divides critical infrastructure across two locations, potentially frustrating initiatives to improve roading throughout Auckland.

Auckland Airport is open and transparent in its support for the Whenuapai Airport Action Group. The company has assisted with technical expertise related to community impact and legal issues, and public information.

SUSTAINABLE DEVELOPMENT Auckland Airport is committed to high achievement in all three performance areas – economic, environmental and social – in its own operations and throughout the wider airport community. This will deliver enduring value to all our stakeholders.

The company established a project team during the year to develop a fully integrated sustainability plan.

In its commitment to sustainable design, Auckland Airport is seeking international validation of the green building features of the expanded arrivals terminal development. Leadership in Energy and Environmental Design (LEED) is the United States Green Building Council's building rating system. LEED focuses on the building life cycle, from site selection, water and energy efficiency, and building materials, to construction methods.

The issue of climate change and the potential implications for the broader aviation industry of carbon emissions and carbon taxes are high on the company's agenda. Auckland Airport's carbon footprint has been calculated for the first time. Several initiatives have been introduced or are planned to reduce it. In partnership with BARNZ, Auckland Airport will become the first New Zealand airport to install ground power units for aircraft. This will cut noise, exhaust emissions and fuel consumption. During the year, the company introduced the *lift* staff travel plan to reduce reliance on the single-occupant car for commuting.

In order to better measure progress and inform our stakeholders, we have significantly extended our sustainability reporting in this year's annual report. An introductory section explains what sustainability means to Auckland Airport. Dedicated sections have been added on the community, and people, health and safety. Environmental reporting will be extended progressively.

AIRPORT MARAE A variety of school, church and business groups have begun to use Te Manukanuka o Hoturoa, New Zealand's first airport marae. A business development manager was appointed early in the new financial year to help create an educational and cultural setting, and promote the marae's usage.

The marae had its formal beginnings in March 2003 when the Maori Queen, the late Te Arikinui Dame Te Atairangikaahu ONZ, DBE, and the late Bob Rawiri, chairman of Nga Marae Toopu (Tainui Marae), signed a memorandum of understanding with Auckland Airport. The traditional blessing of the marae on 11 November 2006 was attended by the Maori King, Te Arikinui Tuheitia, the son of the late Maori Queen, and the Hon Nanaia Mahuta, Minister of Customs, along with many others from tangatawhenua and across the whole airport community.

PEOPLE AND PERFORMANCE Our people are critical to implementing the company's new vision and strategy. A new framework, 'Our Spirit', was developed during the year to provide clear guidelines for behaviours that drive high performance, and deliver excellent results and outstanding customer service.

These behaviours are captured in our new performance development system. 'Our Spirit' will continue to be rolled out over the next 12 months into all areas of human resource management, including recruitment, remuneration, and learning and development.

It will be important to have the right people onboard to realise our strategy. Capacity building will continue with several key appointments throughout the business.

For the first time, a separate section has been included in the annual report on people, health and safety. It includes more information on how we are enhancing our people capability and performance.

THANK YOU It is important to acknowledge the value contributed to the business by all our staff, and by our volunteers, the Bluecoats. Their superior performance again this year has resulted in the continuing high standards of safety and security, efficient operations, and the delivery of a wide array of complex projects on time and on budget. My thanks go to the whole Auckland Airport team.

LOOKING AHEAD The year ahead will be an exciting one. There are a number of important milestones. These include the 'turning of the first sod' of the northern runway development, and the opening of Pier B at the international terminal.

It will also be a year of anniversaries, with the 10th anniversary of the company's New Zealand stock exchange listing in July 2008 and the 20th anniversary of its corporatisation in April 2008.

Over the next year, our focus will be on improving Auckland Airport's strategic positioning towards becoming New Zealand's Airport. This is a significant responsibility in terms of contributing to New Zealand's success as a pre-eminent international tourism destination.

Don Huse

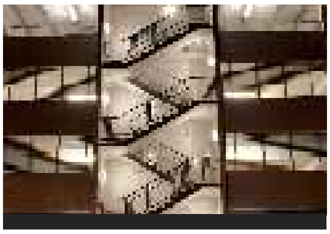
Don Huse
Chief executive officer
23 August 2007

MAJOR CONSTRUCTION PROJECTS

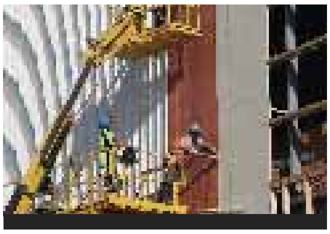
Major projects progressed in 2007

A Retail precinct at the domestic terminal

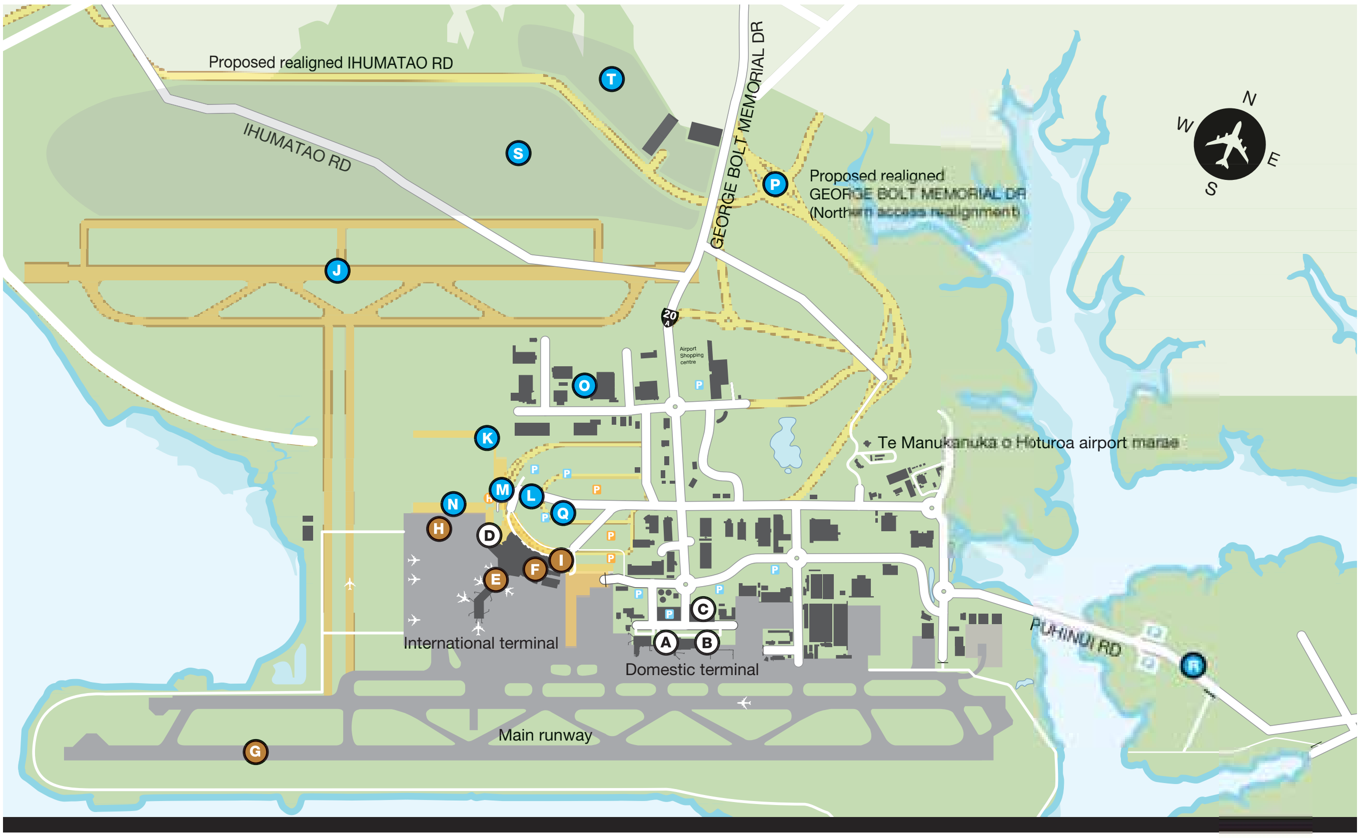
B Regional facilities at the domestic terminal



C Car park building at the domestic terminal



D Expanded arrivals area at the international terminal



Completed projects under the current four year programme

- E International terminal upper level ($47m)
- F Hold stow baggage screening facility ($29m)
- G Main runway rehabilitation and widening ($37m)
- H Hard stands for parking aircraft (Pier B area) ($28m)
- I International check-in facilities upgrade ($12m)

Future projects under Auckland Airport's Masterplan 2025

- J Northern runway and taxiways
- K Domestic terminal relocation
- L New control tower
- M Hotel facilities
- N New international pier (Pier B)
- O Freight precinct
- P Improved transport links and road layout
- Q Transport hub
- R Puhinui Rd upgrade and 4 laning
- S Commercial and aeronautical development
- T Commercial development

Action
Senior management team

From left to right: Robert Sinclair, chief financial officer; **Lucy Powell**, head of communications; **Tony Wickstead**, chief information officer; **Tony Gollin**, general manager aeronautical; **Nick Forbes**, general manager retail; **Charles Spillane**, general counsel and corporate secretary; **Judy Nicholl**, general manager people and performance; **Steve Reindler**, general manager engineering; **Don Huse**, chief executive officer; **Chris Gudgeon**, general manager property.

Robert Sinclair

BCOM, LLB (Hons), CA

CHIEF FINANCIAL OFFICER

Background

Robert Sinclair joined Auckland Airport 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."

Lucy Powell

BA, LLB, DIP BUS Marketing

HEAD OF COMMUNICATIONS

Background

Lucy Powell joined the company as a contractor in November 2006 and became head of communications in August 2007. Lucy was previously communications manager – the Americas for Air New Zealand, based in Los Angeles. She has held a number of positions with Tourism New Zealand, as well as a variety of other roles in communications, marketing, travel and tourism in New Zealand and abroad.

Responsibilities

Lucy's role is to develop and implement Auckland Airport's communications strategy. She will oversee key stakeholder relationships in the corporate and marketing communications areas, as well as media and community relations, internal communications, issues management and crisis communications, events, sponsorships, government relations and investor relations.

Outlook

"As New Zealand's Airport we have a responsibility to our shareholders and other stakeholders to deliver on our brand promise to represent our country. Through a strategic communications plan, and working effectively with all internal and external stakeholders, our communications activities will assist the company to achieve its strategy to be outstanding, uniquely Kiwi and the most welcoming airport in the world."

Tony Wickstead

DIP BUS Marketing, DIP BUS Operations

CHIEF INFORMATION OFFICER

Background

Tony Wickstead has more than 10 years' experience in executive roles within the technology industry, in Australia and New Zealand, most recently with 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 Auckland Airport's long-term strategy for information technology and telecommunications (IT and T), also taking into account the requirements of its diverse group of stakeholders on the airport.

Outlook

"Auckland Airport is taking a technology and thought leadership role in the delivery of information technology and telecommunications solutions for its airport stakeholders. This includes updating the IT and T strategic plan to ensure that it aligns with Auckland Airport's new vision and strategy, and long-term masterplan.

The roll out of self-service technologies is a key strategic initiative to deal with growing passenger demand and space constraints. With the growth of common use and self-service technology a major trend in many airports internationally, Auckland Airport sees the adoption of a common use environment and a consolidated airport technology plan as greatly assisting in improving facilitation efficiency, reducing costs and simplifying the journey, as well as improving passenger satisfaction and loyalty.

Regular and open interaction with stakeholders is planned to ensure technology decisions are predicated on changing business requirements, rather than from a desire for more technology."

Tony Gollin

JP, 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 former operations division as well as aeronautical pricing and air service route development as part of his role.

Outlook

"The division manages all of the company's aeronautical activities within one fully integrated business unit. This means we can engage with our airline customers in a seamless manner on matters of service quality, supply and pricing. Auckland Airport has made considerable investments in core aviation infrastructure over recent years. My role is to help the company grow its aeronautical activities in a way that benefits aeronautical customers and especially the travelling public."

Nick Forbes

AFAIM, AFNZIM

GENERAL MANAGER RETAIL

Background

Nick Forbes joined Auckland Airport 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. Nick is currently undertaking the University of Melbourne's Masters in Business Administration through the Melbourne Business School and expects to complete his study in November 2007.

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 Limited, which owns a large proportion of the food and beverage outlets in the international terminal.

Outlook

"The retail businesses are a key element 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."

Charles Spillane

BA, LLB (Hons), FCIS

GENERAL COUNSEL AND CORPORATE SECRETARY

Background

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

Responsibilities

He 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 Auckland Airport's corporate and business dealings. With Auckland Airport 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."

Judy Nicholl

TTC, DIP Tchg, BE, MEd

GENERAL MANAGER PEOPLE AND PERFORMANCE

Background

Judy Nicholl joined Auckland Airport 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 that people and performance promotes continuous performance improvement as a contribution to business growth.

Outlook

"Auckland Airport recognises that its people are invaluable in making the company a world-leading airport enterprise. We encourage staff to achieve their full potential, which is in line with our vision to be outstanding as New Zealand's Airport. The role of the people and performance team is to develop strategies that ensure we achieve our people and business goals, and to enhance Auckland Airport's reputation as a quality employer."

Steve Reindler

BE (Hons), FIPENZ

GENERAL MANAGER ENGINEERING

Background

Steve Reindler joined Auckland Airport 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, sustainability and 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, detail design for the second runway has started in our north airport area. Site works will begin in October 2007. 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."

Don Huse

BCA, CA

CHIEF EXECUTIVE OFFICER

Background

Don Huse became chief executive officer of Auckland Airport 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

"After considerable benchmarking, customer interviews and other research we have adopted a new vision of 'representing our country'. Underpinning our strategy to become New Zealand's Airport are new core values of being outstanding, uniquely Kiwi and welcoming. The new strategy involves developing and growing our existing business, and enhancing its capital structure. In doing this we remain committed to operating in a safe, secure and sustainable manner, improving the capability of our people, and delivering long-term value for our owners."

Chris Gudgeon

MBA, BE (Civil)

GENERAL MANAGER PROPERTY

Background

Chris Gudgeon was appointed Auckland Airport 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

"Auckland Airport is a leading provider of New Zealand's air cargo and freight distribution infrastructure, supporting a wide range of businesses that benefit from an airport location. A key role of the property team is to provide high-quality premises for all those businesses and, equally importantly, to provide attractive retail amenities and services for employees who work in our airport city and adjacent areas, and for travellers passing through. We are looking forward to the introduction of hotel facilities on-airport."

DELIVERING SUSTAINABILITY

INTRODUCTION

"High achievement in all three performance areas – economic, environmental and social – is critical for the long-term growth and sustainability of the company. To deliver enduring value to our stakeholders, we must continue to produce the economic benefits of a successful airport operation, while at the same time achieving a high level of environmental and social responsibility. We will proactively mitigate the environmental and social impacts of our operations, and take a leadership role on the wider issues. We are committed to contributing positively to our local community."

— Chief executive officer Don Huse

Sustainability has been defined as 'meeting the needs of the present without compromising the ability of future generations to meet their own needs'.

Auckland Airport takes a broad view of sustainability, incorporating all aspects of its business. This includes financial and operational performance, economic contribution, and environmental, community, and people, health and safety performance. Acting sustainably requires adapting commercial decisionmaking to have regard to ecological, social and cultural, as well as economic consequences.

SUSTAINABILITY AND THE AVIATION INDUSTRY

Aviation provides high-value economic and social benefits, through facilitating tourism, providing a market for local businesses, supporting high-value industries and a large number of jobs, and encouraging social and cultural exchange through travel. Air freight is critical for New Zealand's export and import livelihood, as well as for domestic business.

Along with significant benefits, aviation brings some negative environmental and social impacts. Auckland Airport's policy is to avoid, minimise and mitigate these impacts.

Climate change is a critical issue for the aviation industry. Aviation is thought to produce about 1.7 per cent of greenhouse gas emissions globally[1]. Carbon taxes or trading schemes are likely to be introduced for the industry in the future. Already domestic and international airlines are introducing carbon offset schemes. At a global level, aircraft manufacturers are focusing on fuel efficiencies and finding workable alternative fuels.

A risk for Auckland Airport is that international visitors from further afield may begin to choose holiday destinations that involve fewer air miles. Auckland Airport is gearing up to work with the aviation and tourism industries to manage such a risk as well as to reduce the total carbon footprint.

SUSTAINABILITY PLANNING

During the year, the company began work on developing a comprehensive, fully integrated sustainable development plan to balance economic, social and environmental interests. The plan will include a corporate sustainability policy, revision of the environmental management system, stakeholder research, an action plan to address stakeholder expectations, joint programmes in the aviation industry, and ways to further improve reporting. The plan will be completed by December 2007 and will be reported in the 2008 annual report.

Already, the company builds sustainable development principles into strategic and operational plans prior to commitment, and benchmarks its performance against industry leaders.

A RESPONSIBLE AIRPORT COMPANY

Auckland Airport is keenly aware of its responsibility to Aucklanders and New Zealanders, in terms of economic impact benefits through its airport operations and services, infrastructural assets, and land holdings. The airport is a critical link in the tourism and air freight supply chain. Tourism is the country's single largest industry and export earner.

Auckland Airport drives 25.1 per cent of the regional and 13.7 per cent of the national economies[2], generating $10.7 billion and $19.0 billion a year respectively in gross domestic product, which is a measure of value contributed through salary and wages, investments, profits and taxes, for example. This economic activity directly or indirectly supports 153,900 full-time equivalent jobs in the Auckland region and 283,000 nationally. The airport-related business precinct adjacent to the airport has become an employment node in its own right, with 19,200 people staffing 890 business units.

1 See the Stern Review: The Economics of Climate Change, Part III, page 172, for more information.

2 Includes Auckland Airport and associated activities on airport land, and the adjacent business zone.

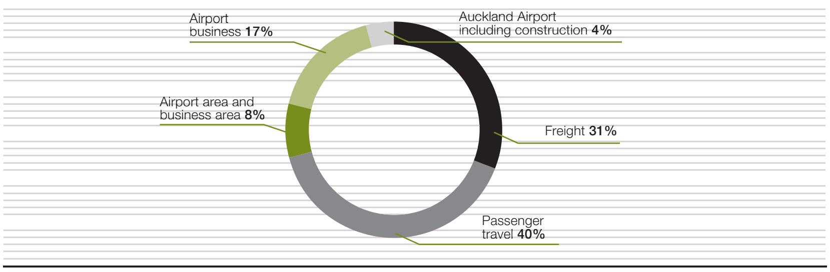
STAKEHOLDER INTEREST AND ENGAGEMENT

Auckland Airport actively engages its stakeholder groups in open, two-way communications. Information on stakeholder engagement is located throughout the annual report. See the directory below:

Key stakeholder group	Stakeholder interest	Ongoing stakeholder engagement
Shareholders	Financial performance and position, corporate governance, corporate responsibility, sustainability	See the Chairman's report and the Corporate governance section, and the following Community, People, health and safety, and Environment sections
Customers – airlines and air freight industry	Service delivery, facilitation of their business, maximising value, security, sustainability	Multi-layer daily contact 24/7, relationship management directly and through BARNZ in the case of the airlines, newsletters, website
Customers – tenants (property and retail), and workers in the wider airport precinct	'Fit for purpose' buildings and facilities, visitor numbers, maximising value, security, sustainability, staff services such as Lollipops Educare.	Relationship management, retailer forums, proactive property management, lease and concession consultation, *The Airport Times* newsletter
Travelling public and airport visitors	Quality travel experience, smooth facilitation of check-in and processing, personal security and safety	Information via the news media, advertising, newsletters, email and website, FlightTXT, and 'comments cards' system, direct interaction by service staff
Suppliers	Facilitation of agreed service, timely payment, safety and security	Multi-layer daily contact, contractor management systems and safety agreements, periodic focus groups, newsletters, website information
Wider community – tangatawhenua, local and regional residents and businesses, interest groups	Environmental and social responsibility, economic and community contribution, archaeological sites	Liaison with tangatawhenua through marae management. Also see the following Community and Environment sections
Employees	Stable employment, equal opportunity, income and benefits, health and safety, professional development	See the following People, health and safety section
Government, border agencies, national, regional and local authorities, and regulators and agencies	Safe and legal operation and development, performance as a strategic infrastructural asset, facilitation of border security	Regular direct contact and participation in working groups

SUPPLIER INFORMATION Auckland Airport has long-term relationships with core suppliers, who are essentially supply partners. The company has a purchasing policy, and provides on-site health and safety training, clear targets, regular monitoring, and open lines of communication.

Auckland Airport's economic contribution, by source
– Year ended 30 June 2006



TOP AWARD FOR ANNUAL REPORT Auckland Airport's 2006 annual report won the large corporate category of the 2007 New Zealand Institute of Chartered Accountants (NZICA) annual report awards. The judges said that the report "... clearly displayed their key strategies for moving forward, and demonstrated a clear understanding of the direction and the story of what the company is seeking to achieve". NZICA runs the awards to lift the quality of reporting in New Zealand.

WORKING WITH THE COMMUNITY

"Auckland Airport strives to make a real contribution to the communities in and around the airport precinct. We are committed to building trust through involvement and open dialogue, and to addressing the impacts associated with operating a growing airport business."

— Head of communications Lucy Powell

Auckland Airport's community relations programme helps to ensure that the company actively engages in mutually relevant community activities that involve staff and other close stakeholders.

The objectives of the programme are to engage meaningfully with the community, to ensure people are kept informed of airport developments and community initiatives, to be involved, and to maintain constructive relationships with community leaders and organisations.

Direct contact is maintained with a number of community groups. Regular updates are provided through the company's newsletter *The Airport Times*, corporate publications, a range of 'issue briefs', a comprehensive website, and the local and national news media. The company has a dedicated staff member to oversee the community relations programme.

COMMUNITY EXPECTATIONS In aspiring to be New Zealand's Airport, Auckland Airport is deeply aware of its responsibilities to the community. The company ensures it continues to provide significant economic benefits, to operate in a sustainable manner by avoiding or mitigating community impacts, and to participate in and contribute to the community. In particular, Auckland Airport is committed to celebrating New Zealand's multicultural society in its community activities across the airport precinct and wider community.

Auckland Airport defines its community as local residents, schools, businesses and organisations, as well as iwi groups (in particular, Tainui), Manukau City Council, Auckland Regional Council, the 19,200 people who work in the airport precinct, travellers, and the wider public in the region.

The following community expectations of the company have become evident through contact with community groups over time:

- Environmental responsibility – Minimisation or mitigation of operational impacts such as aircraft noise emissions and road traffic volume.
- Social responsibility – Involvement in the community and assistance (financial and non-financial) for schools, business and the wider community.
- Employment and economic benefits – Perform as a successful airport company that expands employment and business opportunities in the local community. Information on Auckland Airport's economic contribution to the Auckland region and New Zealand can be found on page 28.

PERFORMANCE ON COMMUNITY IMPACTS AND EXPECTATIONS Local schools are supported through a range of initiatives. These include a free school tour programme managed by Jean Batten School and Airbridge, the Aorere College mentoring programme. The company also sponsors Mangere College with an annual scholarship to the senior school. During the year, local school principals from Mangere College, Jean Batten Primary, Puhinui Primary and Aorere College visited Auckland Airport's corporate office. This was part of the City of Manukau Education Trust business and school partnerships scheme. Auckland Airport also makes student information available on its website.

Staff involvement

Real connection with the community is achieved through the involvement of people, and a number of staff took part in community programmes during the year. Under the Airbridge programme, 20 employees are mentors to students at Aorere College.

Community consultation

Auckland Airport has consulted widely with community groups on its planned construction of the northern runway. Noise mitigation measures were agreed and a trust established to oversee implementation. The runway is included in the Manukau District Plan's airport designation. This was the subject of a seven year review which began in 1994.

Following a decision on the designation by the Manukau City Council in 1998, seven parties were involved in appeals to the Environment Court. The appeals were settled by negotiation over a three year period in a process which became known as the Mayoral Mediation Forum. Information will continue to be provided to the community on construction progress.

Sponsorships and donations
The company's policy is to sponsor activities that relate closely to its local community and have measurable outcomes. The sponsorship programme covers education and health, environment and community, arts and culture, aviation and transport, sport and recreation, and business projects.

The value of sponsorships and donations is listed in the table below. The decrease in 2007 is a result of the completion of a significant project in 2006. The figures in the table do not include non-monetary assistance that Auckland Airport provides to a variety of individuals and organisations throughout the year.

Sponsorships and donations	2007	2006	2005
Total dollar equivalent	$270,120	$526,340	$513,200

Major community sponsorship activities, in addition to school programmes, include:

- Auckland International Airport Life Education Trust – The company is the principal sponsor for Life Education in the local areas of Mangere, Papatoetoe and Otahuhu. The Trust provides health education programmes to around 20,000 primary and intermediate school children each year.
- TelstraClear Pacific Events Centre – Auckland Airport supports this significant local and regional community resource by sponsoring the northern foyer.
- National Burn Centre – The company sponsors the burn rehabilitation area at Middlemore Hospital in a partnership with the South Auckland Health Foundation (see opposite).
- Life Flight Trust – The Trust, which transports critically ill patients around New Zealand, receives significant support for its Auckland operations (see opposite).
- Villa Maria Cult Couture – The company sponsors an award category in this local event, which melds culture, art and high fashion, and is held annually at the TelstraClear Pacific Events Centre.
- Enterprising Manukau – Westpac Business Excellence Award – Auckland Airport sponsored the 2007 Westpac Manukau Business Excellence Awards 'Excellence in Tourism' category. The awards are a major annual event to honour local businesses that demonstrate outstanding performance and positively contribute to economic development in Manukau.

The company also distributes travellers' contributions to local registered charities and oversees the donation boxes placed around the airport.

AUCKLAND AIRPORT COMMUNITY TRUST

The company provides funding for the Auckland Airport Community Trust, which in turn funds literacy programmes in the community surrounding the airport and allocates project funding for mitigation of aircraft noise emissions. 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.

FIRST AIRPORT MARAE

Te Manukanuka o Hoturoa, the first airport marae (traditional Maori meeting place), was blessed at an opening ceremony in November 2006. It has been built for use by the airport and community for a variety of cultural and educational purposes. These include the welcoming and farewelling of dignitaries, the provision of comfort and shelter for bereaved families receiving the body of a loved one who has died overseas, and on-airport cultural and social programmes.

The marae, near Tom Pearce Drive, was built in partnership with the Tainui people, who are the tangatawhenua, and with the generous personal, financial and material support of individuals, businesses and organisations in the airport community.

The marae complex consists of the whare nui (meeting house), whare kai (dining room), waharoa (entrance) and paepae (welcoming area). Carvings crafted for the whare nui by Tainui carvers are a special and unique feature. The Tainui people have also contributed woven tukutuku panels and painted kowhaiwhai scroll designs.

HELPING REHABILITATION

Auckland Airport sponsors the rehabilitation gym and additional equipment at the National Burn Centre, which is based at Middlemore Hospital. The centre caters for the most severely burned patients from around New Zealand. The rehabilitation gym is well equipped to maximise the recovery of each patient and movable equipment is available for patients in isolation.

"The gym is an invaluable part of the rehabilitation of many patients and helps Auckland-based patients reintegrate back into their normal lives through our ongoing outpatient physiotherapy service. We are very grateful for the contribution of Auckland Airport that helped to make this great rehabilitation facility possible."
— National Burn Centre Senior Physiotherapists Alicia Lane and Kirsten van Asten

LIFE-SAVING AIR SERVICE

Auckland Airport provides a home base for the Life Flight Trust. The Trust's air ambulances transport sick and injured babies and children from around New Zealand to children's hospital facilities in Auckland and Manukau.

The air ambulances operate as flying intensive care units, staffed by specialist flight nurses and doctors using the same equipment found in hospitals. Best of all, they allow family members to travel onboard, something which is really important if you are a very ill and scared child.

"Auckland Airport is not just the home of our Auckland-based air ambulance, for the hundreds of seriously ill children we fly each year. It represents access to life-saving specialist services. We thank Auckland Airport for their generous support. It helps keep our team in the air and saving lives."
— Life Flight Trust General Manager Kevin Allan

To find out more about Life Flight or to donate, visit www.lifeflight.org.nz.

From far left: Members of Aorere College's award-winning Sweet Sixteen choir, which Auckland Airport assisted with sponsorship; Te Arikinui King Tuheitia (centre right) and Atawhai (wife of the King), with members of the Auckland Airport board, at the blessing of the new airport marae Te Manukanuka o Hoturoa; members of Life Flight's Auckland team ready for action.

PEOPLE, HEALTH AND SAFETY

"Auckland Airport's people consistently perform to a very high level and achieve the successes for which the company is known. Our priority is on recruiting and retaining high-calibre people, providing a stable and safe work environment, and providing opportunities for learning and development so that our people can develop to their full potential."

— General manager people and performance Judy Nicholl

A DIVERSE CREW

Auckland Airport has approximately 300 staff employed full-time in a diverse range of roles, from customer services and emergency response through to corporate services, property and retail. An additional 25 casual positions are required to fill various roles in the retail and aeronautical areas.

Auckland Airport's workforce is a mature one, with 75 per cent of staff aged over 35, and is relatively stable. Turnover in permanent staff during the year was 18 per cent. This was higher than usual due to a number of long-serving employees retiring and changes to business operations.

Equal opportunity

Auckland Airport supports the principles and practices of equal employment opportunities (EEO) and believes that a diverse workforce is an asset. Management practices and processes at all levels are consistent with EEO principles and are reviewed periodically to ensure they remain so. In addition to the EEO policy, the company is a member of the Equal Employment Opportunities Trusts.

Gender breakdown	Male	Female
Total permanent staff	69%	31%
Senior and middle management (EEO top three tiers)	80%	20%
Divisions		
Aeronautical	69%	31%
Property	83%	17%
Retail	50%	50%
Engineering	87%	13%
Other: corporate, IT and T, people and performance, legal, finance	39%	61%

KEEPING HEALTHY AND SAFE

Auckland Airport is committed to ensuring the safety of employees, contractors and others while they are in the airport work environment.

The company is further developing its Occupational Health and Safety Management System. This includes a health and safety team. Two staff safety committees cover the airside and landside, and include tenant, airline and ground handlers' representatives. A safety audit system is in place.

Contractors receive a safety induction and booklet, and must prove they have safety rules and a good safety record. Permits from Auckland Airport are required for any potentially hazardous work in the airport precinct, particularly for airside projects.

Staff are involved in identifying and eliminating or minimising hazards. Operational staff take pre-employment medicals, and emergency response team members continue to have regular medicals. Staff working in noisy environments receive hearing checks annually, Hepatitis A and B tests are provided for staff who may be at risk, and sunscreen and protective clothing are provided for people who work outdoors.

Departments have individual safety targets to meet, with a rewards programme, to incentivise managing health and safety.

Training to be safe

Employees are responsible for their own safety in their jobs and that of the people around them in the workplace. They are trained to anticipate issues, and to undertake safety investigations and audits. Response officers and operational staff are trained in first aid.

The emergency response team plays a crucial part in ensuring safety in the airport precinct. The unit is not only an industrial fire brigade – officers attend a wide range of other emergencies, medical incidents, motor vehicle accidents and marine rescues. Designated Auckland Airport staff and tenants are trained by the response unit to act as fire wardens and to ensure the orderly evacuation of the airport during an emergency.

Clockwise from top:
Auckland Airport volunteer hospitality ambassadors, Bluecoats John Hurst and Jill Aspley, and Tura Leaf (bottom right). Airport response officers Matt Kane (kneeling) and Paul Martin practise CPR.

Preventing work-related injuries
Auckland Airport's ultimate goal is to eliminate work-related injuries. In working towards this goal, the company is committed to improving its current lost-time injury performance and is undertaking a review of its systems in support of this. A number of relatively minor injuries were responsible for the increase in lost-time injuries during the year.

Lost-time injuries

	2007	2006	2005	2004
Lost-time injuries – actual	11	11	6	7
Lost-time injury rate – per 100,000 hours worked	18.02	16.48	8.90	11.11

When injuries occur, employees receive treatment and undertake rehabilitation in a programme run in conjunction with the Accident Compensation Corporation (ACC). Auckland Airport is audited every second year by an independent auditor and has ACC's secondary Workplace Safety Management Practice certification. The company has also engaged an external provider to conduct independent reviews of workplace accidents when they occur.

The average days per employee lost through sickness was 5.8 for the year as an average across 300 staff.

Ensuring traveller and visitor safety
Auckland Airport strives to provide a safe environment for travellers and visitors in public areas of the airport. Work continues on eliminating injuries, which are most commonly a result of slips and falls, and on implementing security measures. Security training covers human rights issues to ensure all people are treated with respect.

Traveller and visitor injuries attended to by the response unit

	2007	2006	2005
Traveller and visitor injuries – actual	131	114	131
Traveller and visitor injuries – per 100,000 passenger movements	1.06	0.94	1.16

ENHANCING STAFF CAPABILITY

In May 2006, the company embarked on a new project to enhance efficiency and implement continuous improvement in operations and services.

Project Stellar* will integrate and automate systems and processes, and align them with business goals, as well as centralise and standardise the management of incidents, events and customer service requests. It will result in a better work environment for staff, improved effectiveness and empowerment, further opportunities for personal development, and experience with updated processes, systems and tools.

Progress achieved during the year on Project Stellar* includes:

- Remodelling the current operations centre, incident control room and emergency operations centre.
- Building a separate operations front office.
- Building a geographically-removed and fully-provisioned operations centre disaster recovery facility.

A new learning and development framework will be progressively implemented during 2008 to provide more targeted training, and further develop career and succession planning.

As a private training enterprise, registered in 1996, Auckland Airport offers a three year National Diploma of Airport Operations for on-site staff training. The company also plans to offer the course to external students on a commercial basis. Seven employees have attended the New Zealand Institute of Management frontline management course.

During the year, the company invested nearly $230,000 in training and development, which equates to 1.5 per cent of total personnel costs.

Right: Project Stellar* team members Greg Chisholm and Sarah Pellett with customer services staff member Achal Narayan.

REMUNERATION AND BENEFITS Benefits for permanent staff include life insurance, salary continuance insurance, free car parking, flu shots, and access to the employee assistance programme and share scheme. Operational staff are provided with uniforms. A new child-care facility at the airport opened during the year, and maternity and paternity leave is available in line with the Parental Leave and Employment Protection Act.

As from 1 July 2007, all staff have the option of joining either the currently-provided company superannuation scheme or joining the government's KiwiSaver scheme.

Over half the workforce is represented by three collective employment agreements with the Engineering, Printing and Manufacturers' Union. All three agreements were re-negotiated during 2006. The one year Response Unit Employees Collective Agreement will be re-negotiated during 2007.

Work-life balance is valued and while over 50 per cent of permanent staff work shifts, overtime limits are set in the collective agreements.

STAFF COMMUNICATION Company information cascades from the board and the chief executive officer to the senior management team, and to supervisors and frontline staff. In addition, there are staff newsletters and an intranet. Two-way communication is encouraged by the company's open-door policy, and regular upward and downward information flows. A whistle-blowing procedure is included in the company policy. Improving communication among departments is a continuing key focus.

BECOMING OUTSTANDING Auckland Airport has developed a framework of the workplace behaviours that make us outstanding. The intention is to give greater clarity to organisational values, as well as to the specific people skills needed for high performance and job satisfaction.

A significant number of staff took part in workshops and interviews to build a framework that captured people skills and values. This determined what makes Auckland Airport a good place to work and what drives high performance.

The ideas and active participation captured the 'spirit' of the company. 'Our Spirit' is a guide for people to manage themselves and the business. This process identified nine behaviours that will encourage staff to remain commercially-focused in all aspects of work. Alongside these behaviours are clear guidelines on being accountable for performance, on communicating effectively and on seeking ways to improve.

The behaviours will be integrated into all processes and systems, as well as job descriptions, performance reviews, and the learning and development framework.

STAFF FIRST TO GET AIRPORT OPERATION DIPLOMA Seven employees are now qualified to run a small airport after completing the National Diploma in Airport Operations, after three years of much after-hours work. The course, offered for staff, has a high credit rating of Level Five through the New Zealand Qualifications Authority. The students managed a mythical small airport and analysed the logistics of turning it into an international airport with tourist services.

THE ENVIRONMENT

"The basis for environmental performance at Auckland Airport is not only to ensure that the company complies with local, regional and national requirements. The company also strives to exceed these standards and to continually improve our environmental performance."

— General manager engineering Steve Reindler

ENVIRONMENTAL MANAGEMENT

As part of its Environmental Management System, Auckland Airport has an Environmental Management Plan which details accountabilities for environmental management initiatives at Auckland Airport. The plan addresses the company's statutory obligations, objectives, targets, specific actions, timeframes and responsibilities for the following programme areas:

- *Environmental management and stakeholder relationships*
  Maintaining relationships with key stakeholders is essential to effective environmental management at Auckland Airport.
- *Resource efficiency*
  Auckland Airport is committed to using resources at the airport in a responsible and efficient manner. This includes energy conservation, water use, building design and purchasing.
- *Ground transport*
  Vehicle movements are acknowledged as a source of environmental impact at Auckland Airport and the surrounding road network. Movements include visitor and staff traffic and airport operation vehicles. Auckland Airport is working with a range of organisations to promote an improved surface transport system that enables efficient and timely access to the airport by people and goods from all parts of the region and beyond.
- *Climate change and air quality*
  Auckland Airport's approach to climate change and air quality is to minimise air emissions from ground-based activities on airport land, understand climate change issues and implement initiatives to address them.
- *Waste management*
  The basis for environmental performance at Auckland Airport is that the company at least complies with local, regional and national requirements. The company also strives to exceed these standards and to continually improve its environmental performance in areas such as recycling.
- *Stormwater, groundwater and soil*
  Auckland Airport is located on the shores of Manukau Harbour. The aim of stormwater and groundwater management at the airport is to prevent contaminants entering the stormwater system and being discharged to the Manukau Harbour or Pukaki Creek.
- *Aircraft noise*
  Aircraft noise management is an important challenge for airport and aircraft operators worldwide. Auckland Airport works with aircraft operators and air traffic control to manage noise levels at and around the airport so that impacts on the community are minimised. Aircraft noise at Auckland Airport is managed according to the requirements of the Manukau District Plan.
- *Natural environment*
  The management of biodiversity at an airport is about achieving a balance between optimising the opportunities for a diverse range of habitats and species, while minimising the risk to people, aircraft and wildlife.
- *Culture and heritage*
  The area occupied by Auckland Airport has a long history of occupation by both Maori and early European settlers to New Zealand. Cultural heritage issues on this site include archaeology and built heritage.

More information can be found on the company's website www.auckland-airport.co.nz.

ENVIRONMENTAL ACCREDITATION FOR TERMINAL DEVELOPMENT

Auckland Airport is pursuing international accreditation for its expanded arrivals terminal development project, an area of the international terminal due for completion in April 2008.

Leadership in Energy and Environmental Design (LEED) is the United States' Green Building Council's (USGBC) building rating system. The system promotes the creation of sustainable buildings. It focuses on the building life cycle, from site selection, water and energy efficiency, and building materials to construction methods.

The LEED rating system has six credit categories. Design teams are free to choose which credits they will pursue to meet the requirements for certified, silver, gold or platinum rating. Credit documentation is reviewed by the USGBC in two stages – after design completion and construction completion.

A LEED certification provides a third-party validation of a building's sustainable features. LEED-certified buildings are more environmentally responsible, healthier for occupants and consume less energy to operate than standard design buildings. As LEED is a voluntary rating system, it shows a company's environmental leadership and commitment to sustainable design.

From left to right: Auckland Airport's Franswa Jooste and archaeologists Beatrice Hudson (left) and Louise Furey of CFG Heritage oversee the careful relocation of the historic Westney Methodist Church; the completion of acoustic work at Puhinui School is celebrated by year 1 and 2 children and the acoustic project team; the installation of ground power units will help reduce aircraft noise, and fuel emissions and consumption.

REDUCING AIRCRAFT NOISE AND FUEL EMISSIONS

In partnership with BARNZ, Auckland Airport will be the first New Zealand airport to install ground power units (GPUs) for parked aircraft. The installation of this technology negates the use of aviation fuel. Aircraft would normally have to remain powered up by a small internal engine known as an auxiliary power unit (APU) to maintain internal operating conditions such as air conditioning and lighting while on the ground. APUs generate a substantial amount of noise and exhaust emissions. However, GPUs supply electricity from the airport terminal to the aircraft while at the gates.

GPUs reduce fuel consumption and fuel emissions as well as noise, aircraft maintenance costs and per-passenger costs. These units operate as demand systems, consuming only the energy required to fulfil the aircraft's power needs at any given time. The units will be located on the 10 aircraft gates at the international terminal. The first three will be operational in September 2007 and the remainder in early November. The GPUs will mean airlines can reduce fuel emissions to the air at Auckland Airport by up to 189 tonnes per year.

ACOUSTIC TREATMENT

Auckland Airport works with airlines, air traffic control and local authorities to keep the effects of aircraft noise on local communities within set limits. This is a responsibility which Auckland Airport takes seriously.

The company has an acoustic treatment programme to reduce the levels of aircraft noise heard inside local schools and residential properties built or consented before December 2001 and lying within designated noise contours.

Work may include installing new windows and frames or acoustic insulation in roofs and walls. A mechanical ventilation system is fitted to enable airflow inside the property when windows and doors are closed.

Extensive work on Puhinui School was completed in August 2007. The work involved putting up six temporary classrooms and two toilet blocks so that the children could continue their schooling while the main buildings were worked on. Six classroom blocks, the auditorium, the library and the information technology areas were sound-proofed and provided with mechanical ventilation.

Puhinui School principal Kevin Hornby said he was pleased with the process: *"Disruption to the school has been minimal. The Airport has been very good to work with and considerate of the school trying to work while building projects are going on. We've been kept fully informed and are included in site meetings. There has been excellent communication from all parties."*

More information on the acoustic treatment programme is available on the Auckland Airport website in the Noise pages of the Environment section.

TAKING CARE OF HISTORY

In May 2007, Auckland Airport signed a Memorandum of Understanding with the New Zealand Historic Places Trust to establish effective working relationships between the two parties, and promote robust initiatives to protect and preserve heritage at Auckland Airport.

As part of this agreement, Auckland Airport has undertaken considerable investigation and research into Maori and European settlement, which has added significantly to our knowledge of the area. The interesting facet of this research has been the ability to look at changes over a 150 year period of continuous occupation and see the many cultural associations represented.

Auckland Airport is also undertaking a programme of archaeological assessments to the north of the airport terminals. This area is the location for the new northern runway and commercial property development. The need to relocate existing buildings in this area has led to plans to establish a historical precinct at the airport. The Westney Homestead and former Methodist Church will be included in this precinct along with other historic buildings.

Auckland Airport has also been working closely with the Makaurau Marae to identify sites of cultural and historical interest in the northern area west of George Bolt Memorial Drive.

GIVING PEOPLE A LIFT

In late 2004, Auckland Airport began a comprehensive study into the issue of surface access routes to the airport. From the findings, a number of initiatives were identified, including developing a staff travel plan for the airport community.

The travel plan, called *lift*, helps staff find new ways to commute. The aim is to reduce the number of single occupancy cars.

lift initially includes staff from Auckland Airport, HMSC-AIAL Limited, Air New Zealand, New Zealand Customs, MAF Biosecurity New Zealand and the Aviation Security Service. It is expected that the plan will be rolled-out across the entire airport community in August 2007.

In February 2007, the Airport was one of 12 organisations to trial the Auckland Regional Transport Authority (ARTA) online car pooling tool. This tool enables airport workers to match up with potential car poolers in their local area so they can contact each other and discuss how car pooling might work for them.

The initial response from the car pooling tool trial has been pleasing. The next phase is to maintain interest and momentum.

In addition to the car pooling service, other *lift* initiatives include working with ARTA and its public transport providers to improve routes to the airport.

DEFINING THE AIRPORT'S CARBON FOOTPRINT

Auckland Airport's first emission inventory report was prepared by Landcare Research in 2007. The inventory is to help the company meet its corporate carbon disclosure reporting intentions, and assess opportunities for greenhouse gas emission reductions and offsetting as part of the ongoing environmental management programme.

The emissions inventory was calculated for the period 1 July 2005 to 30 June 2006. Collecting data was a complex manual exercise. As this is the first year of reporting, no historical data is available for comparison of performance.

The report covers Auckland Airport's corporate and terminal operations. It includes emissions associated with the international terminal building and management offices, general operations, domestic terminal buildings, emergency response activities, operations, facilities maintenance and embodied emissions in concrete and steel building construction.

Auckland Airport's most significant greenhouse gas emission sources are indirect, from the consumption of electricity and from operational emissions associated with maintaining the airport's infrastructure.

Auckland Airport will seek ways to minimise direct (Scope 1) and indirect (Scope 2) greenhouse gas emissions, and work with its many contractors to try and reduce indirect (Scope 3) emissions over time.

The total CO_2e emissions for the financial year 2005/06 were 5,520 tonnes, comprising:

Direct (Scope 1) emissions	Reticulated gas, diesel (generators), company vehicles, fire training	722 tonnes
Indirect (Scope 2) emissions	Purchased electricity	2,386 tonnes
Indirect (Scope 3) emissions	Staff air travel, taxis, embodied emissions in concrete used for runway maintenance	2,240 tonnes
Indirect one-time (Scope 3) emissions	Embodied emissions in concrete and steel in building construction	172 tonnes

Environmental objectives and performance

Programme area	Objectives	Indicators	Result	Key actions completed July 2006-June 2007
Environmental management and stakeholder relationships	Ensure appropriate management systems and plans are in place to satisfactorily address all environmental risks associated with activities on airport land. Work towards a leadership position in establishing, promoting and maintaining environmental awareness across the entire airport. Implement and manage all resource consents for 100% compliance. Involvement in the development of and compliance with relevant legislation, standards and company guidelines.	Total environmental protection spending by Auckland Airport (Includes relevant capital items but excludes noise mitigation)	$640,000	Revison of the environmental management system to focus on environmental plans for each key topic area. Implementation of a resource consents database (CS-VUE) that assists in managing the company's compliance. Review of the environmental policy and development of a new policy.
		Number of non-compliant notices	Nil	
Resource efficiency	Ensure sustainability considerations in purchasing frequently procured items. Promote and practise energy efficiency and water conservation. Ensure sustainability considerations in new building developments across the airport.	Total potable water used in public areas per passenger	22.2L-ITB[1] 3.4L-DTB	Establishment of the energy conservation policy team. Development of an energy efficiency and conservation policy for Auckland Airport. Began the programme to pursue LEED certification for the new arrivals hall (Pier B).
		Energy usage in public areas per passenger	Electricity kWh/pax[2] 3.31-ITB 0.47-DTB Gas kWh/pax 0.89-ITB	
Ground transport	Promote actions to increase fuel efficiency of the company's vehicle fleet. Encourage use of alternative and sustainable transport modes airport-wide. Minimise airport-wide traffic-related environmental impacts.	Number of airport workers registered with *lift* car pooling (February 2006 – July 2007)	343	Launch of the airport travel plan, *lift*. Submissions to various local authority plan processes, seeking improved public bus services to the airport. Commission of an independent study on future vehicle and fuel options for the company fleet, with implementation of key findings underway.
		Average fuel consumed by fleet vehicles per 1,000 passengers [3]	15.7L	
		Vehicles entering airport precinct per passenger	1.96	
Climate change and air quality	Minimise air emissions from ground-based activities on airport land. Understand climate change issues at Auckland Airport and implement initiatives to address these.	Total CO_2e emissions for Auckland Airport (See above for explanation of Scope 1, 2 and 3)	Total 5,521 tonnes See table above for breakdown	Completion of a carbon footprint for fiscal year 2006. Purchase of ground power units.
Waste management	Minimise waste from company activities on airport land. Dispose of company waste responsibly across the airport. Educate and provide facilities for others to minimise waste and dispose of it responsibly. Ensure quarantine waste obligations are met.	The company is currently reviewing the waste management strategy and will be setting indicators during 2008		Implemented airside recycling of oil cans and cardboard. Waste audit conducted at the international terminal building (landside), as a prelude to introducing recycling facilities in the terminal buildings for passenger use. Continued staff landside recycling of paper, glass and plastics.

PRIORITY ACTIONS FOR 2008

The environmental management plan includes key actions and ongoing initiatives across all the programme areas:

- Undertake a stakeholder survey to better identify stakeholder expectations.
- Review construction and maintenance contractor requirements for compatibility with the revised environmental management system.
- Further develop environmental awareness across the airport community.
- Implement sustainable building design for Pier B with consideration of the LEED rating system.
- Maintain 100 per cent compliance with regulatory requirements for all resource consents.
- Develop an action plan for managing carbon emissions airport-wide.
- Develop a historical precinct for buildings of heritage value.
- Coordinate the Aircraft Noise Community Consultative Group.
- Monitor and report on aircraft noise to ensure limits in the aircraft noise areas are not exceeded.
- Manage stormwater discharge quality and stormwater pond monitoring.
- Roll out the *lift* travel plan and enhance opportunities for public transport, walking and cycling.
- Implement waste audit initiatives and management plan, including recycling in public areas.
- Continue with the wildlife hazard management programme.

Noise complaints

	2007	2006	2005
Number of complaints	21	28	106

Noise management expenditure (including mitigation)

	2007	2006	2005
Expenditure	$1,818,110	$358,467	$463,683

Environmental objectives and performance continued

Programme area	Objectives	Indicators	Result	Key actions completed July 2006-June 2007
Stormwater, groundwater and soil	Minimise impact of activities on airport land, and on surface and groundwater quality adjacent to Auckland Airport. Manage Auckland Airport's known and suspected contaminated sites in accordance with regulatory requirements and work with tenants to ensure they also achieve this.	Significant (<2m^2) hydrocarbon spills contained per 100,000 aircraft movements (on the apron)	1	Continuation of the airport-wide stormwater education programme. Installation of spill kits on the apron area for cleaning up minor pollution incidents. Initial work on constructing the first of four north airport wetland stormwater ponds. Work with Manukau City Council on mitigation options for perennial stream loss in the north airport area. Purchase of spill kits for use in the domestic terminal multi-level car park.
		Number of spills that went to the environment	Nil	
Aircraft noise	Minimise impact on the community from aircraft noise. Ensure compatible development in the local community. Implement and manage the noise requirements under the Manukau District Plan.	100% compliance with the Manukau District Plan noise requirements	Target achieved	Published annual aircraft noise contours in May 2006 and February 2007. Made 661 offers of acoustic treatment in October and November 2006. Conducted acoustic treatment work on more than 50 houses where offers were made in April 2005 and October 2006. Progressed acoustic treatment work at Puhinui School. Made offers to three further schools and began planning for work at the Seventh Day Adventist School.
		Noise enquiries per 100,000 aircraft movements	13.5	
Natural environment	Encourage the use and preservation of native New Zealand plant species in landscaping. Maintain an active wildlife management programme while maintaining a safe environment.	CAA risk category for bird strike (low, medium, high)	Low (5.0 or less per 10,000 aircraft movements)	Continued with the wildlife hazard management programme. Successfully transplanted pohutukawa trees from an area under development to the marae, multi-storey car park and lake.
		85% of trees planted are native species	Target achieved	
Culture and heritage	Ensure the company manages issues of heritage significance in accordance with applicable legislation. Enhance the company's relationships with local tangatawhenua, and other culture and heritage stakeholders.	No indicator available	No indicator available	Development of a memorandum of understanding with the NZ Historic Places Trust. Completion of archaeological studies for areas being developed in the northern area. Relocation of the Westney Homestead and church and development of conservation plans. Planning for a historical precinct. Continued work with representatives from the Makaurau Marae as development in the northern area occurs to ensure sites of significance are managed appropriately.

[1] ITB: International terminal building. DTB: Domestic terminal building. [2] Litres of diesel equivalent based on the amount of carbon in the fuel. [3] The larger building and greater air conditioning demands at the international terminal account for the greater electricity use per passenger. Gas is used for heating at the terminal in cold weather and for some water heating.

FINANCIAL REPORT

This section provides an overview of the financial results and key trends for the year ended 30 June 2007 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, accompanying notes and accounting policies set out on pages 46 to 70.

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 Auckland Airport's incineration operations being transferred to a new outsourced arrangement with Medi-Chem Waste Services Limited.

Results overview

	2007 $m	2006 $m	% Change
Financial performance			
Revenue	321.946	305.814	5.3
Earnings before interest, taxation and depreciation	242.799	240.161	1.1
Surplus before taxation	136.935	146.704	-6.7
Taxation	44.954	43.549	3.2
Surplus after taxation	91.981	103.155	-10.8
Earnings per share			
– cents per share	7.53	8.44	-10.8
Ordinary dividends			
– cents per share	8.20	8.20	–
– amount	100.149	100.108	–
Financial position			
Shareholders' equity	1,934.471	1,855.102	4.3
Total assets	2,906.941	2,757.861	5.4
Capital expenditure	105.406	109.545	-3.8

RESULTS OVERVIEW The company enjoyed another strong year in 2007, driven by a solid increase across most revenue lines.

Growth in passenger numbers, higher retail returns, and new investment properties contributed to a 5.3 per cent increase in revenue to $321.946 million. Operating expenses increased 20.6 per cent to $79.147 million, resulting in a 1.1 per cent increase in earnings before interest, taxation and depreciation (EBITDA) to $242.799 million. Surplus after taxation was $91.981 million, a decrease of $11.174 million from last year.

Operating expenses were adversely affected by a significant increase in the company's provisioning for its long-term incentive (LTI) schemes for senior management and staff of $9.925 million. Details of this increase in provision are provided below.

Excluding the LTI provision, EBITDA increased 5.2 per cent to $252.724 million and surplus after taxation decreased 1.2 per cent to $101.906 million. As in 2006, surplus after tax (excluding the LTI provision) eased slightly as a result of increased interest costs associated with the increase in financing costs for the capital expenditure programme and depreciation. Earnings per share were 7.53 cents (8.35 cents, excluding the LTI provision).

Ordinary dividends per share were 8.20 cents, equivalent to the 2006 year.

The company continued its capital expenditure programme during the 2007 year, investing a total of $105.406 million in a range of runway, terminal, retail and investment property projects.

As a result of the revaluation of its investment properties and the company's capital expenditure investment programme, total assets as at 30 June 2007 increased $149.080 million to $2,906.941 million. Shareholders' equity increased to $1,934.471 million.

Surplus after tax has grown at a compound average growth rate of 5.2 per cent per annum over the last five years (7.3 per cent, excluding the LTI provision). Ordinary dividends per share increased on average 10.5 per cent per annum over that period. The company has distributed $811.655 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 $455.574 million in a range of projects to develop Auckland Airport for the benefit of all its users.

A five year summary of the company's financial results and key statistics is set out under the Five year summary on pages 72 to 77.

Passenger and aircraft statistics	2007	2006	% Change
Passenger movements			
International arrivals	3,174,909	3,081,918	3.0
International departures	3,198,518	3,131,729	2.1
Transits and transfers	912,970	*889,388	2.7
Total international passengers	7,286,397	7,103,035	2.6
Total domestic passengers	5,068,794	4,963,142	2.1
Total passenger movements	12,355,191	12,066,177	2.4
Aircraft movements			
International aircraft movements	38,406	38,759	-0.9
Domestic aircraft movements	117,469	122,140	-3.8
Total aircraft movements	155,875	160,899	-3.1
Cargo tonnage			
International freight and mail	195,008	197,712	-1.4
Domestic freight and mail	29,507	34,943	-15.6
Total freight and mail	224,515	232,655	-3.5
MCTOW (maximum certificated take-off weight)			
International MCTOW	4,085,290	4,186,813	-2.4
Domestic MCTOW	1,661,844	1,639,690	1.4
Total MCTOW	5,747,134	5,826,503	-1.4

* Note that, from October 2006, the company has been in receipt of more detailed and accurate transit and transfer data from Immigration New Zealand. The new data (which has been compiled from 1 July 2005) indicates that there was a material number of transit and transfer passengers not included in the previous data.

PASSENGER AND AIRCRAFT STATISTICS

In the 2007 year, total passenger movements were 12,355,191, an increase of 2.4 per cent over the 2006 year.

International passenger movements continued to grow, albeit at a rate lower than the company's long-term average. Total international movements reached 7,286,397, an increase of 2.6 per cent over the previous year. More importantly, however, the rate increased from 1.4 per cent in the first half of the year to 3.8 per cent in the second half of the year.

With the proposed Tasman Network Agreement between Air New Zealand and Qantas being declined, Air New Zealand moved to reduce trans-Tasman capacity. While Auckland Airport has experienced some reduction in seat capacity over the last 12 months on most trans-Tasman services, frequencies have remained relatively unchanged compared to other airports. Generally, seat load factors to and from Auckland to most overseas markets remained at very high levels for the majority of the past 12 months.

These high load factors have been buoyed by strong demand from New Zealand residents travelling overseas due to the favourable exchange rates, and New Zealand's attractiveness as a tourist destination. While the high exchange rate has had some impact on overseas arrivals, strong economic growth in key markets has encouraged tourists to continue to travel.

Generally, the lack of growth in seat capacity and continued global strength in world economies has meant modest growth in international passenger arrivals. The delay in the delivery of the Airbus A380 has also contributed to the growth in seat capacity remaining relatively flat overall, as airlines have based their growth plans on the delivery of this aircraft.

Passengers arriving at Auckland by country	2007		2006		Change	
	Arrivals	%	Arrivals	%	Arrivals	%
Country of last permanent residence						
New Zealand	1,415,325	44.7	1,364,348	44.5	50,977	3.7
Australia	514,446	16.3	502,828	16.4	11,618	2.3
United Kingdom	255,116	8.1	250,725	8.2	4,391	1.8
United States of America	181,700	5.7	180,174	5.9	1,526	0.8
People's Republic of China	109,285	3.5	89,536	2.9	19,749	22.1
Japan	84,023	2.7	97,932	3.2	-13,909	-14.2
South Korea	82,300	2.6	80,784	2.6	1,516	1.9
Germany	43,693	1.4	43,142	1.4	551	1.3
Canada	40,165	1.3	36,900	1.2	3,265	8.8
Taiwan	24,500	0.8	25,695	0.8	-1,195	-4.7
India	20,281	0.6	17,477	0.6	2,804	16.0
Singapore	17,645	0.5	23,113	0.8	-5,468	-23.7
Malaysia	17,895	0.5	20,870	0.7	-2,975	-14.3
Other	358,366	11.3	334,334	10.8	24,032	7.2
Total	3,164,740	100.0	3,067,858	100.0	96,882	3.2

Source: Statistics New Zealand

New Zealanders and Australians, based on country of last permanent residence, collectively made up 61.0 per cent of international passenger arrivals at Auckland Airport, consistent with last year. The continued significant contribution of trans-Tasman passengers reflects the continued popularity of this sector. The trans-Tasman sector provides the company with a solid base of passenger movements. This is expected to continue with ever closer business and tourism linkages between Australia and New Zealand.

Strong growth came from China (22.1 per cent), India (16.0 per cent), and Canada (8.8 per cent). These increases were, however, offset by declines from the traditional markets such as Japan, Taiwan, Singapore, and Malaysia which have been affected by reductions in flight capacity, shifts in travel preferences and the continued strength of the New Zealand dollar.

The strength of the New Zealand dollar over the last year is likely to have adversely impacted growth in international visitors to New Zealand.

The largest categories by purpose of visit remain holidays (46.5 per cent) and visiting friends and relatives (29.6 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 2007 financial year were 5,068,794, an increase of 2.1 per cent over the previous year.

Total aircraft movements were 155,875, a decrease of 3.1 per cent over 2006. International aircraft movements were 38,406, a decrease of 0.9 per cent over 2006. This was mainly due to the reduction in the number of flights, however, this was offset by an increase in load factors. Domestic aircraft movements were 117,469, a decrease of 3.8 per cent. Air New Zealand has reduced its domestic flight schedule. In addition, the cessation of Origin Pacific services contributed to the decrease.

Auckland Airport cargo tonnage during 2007 was 224,515 tonnes, a decrease of 8,140 tonnes (3.5 per cent) over 2006.

The total MCTOW (maximum certificated take-off weight) was 5,747,134 tonnes, a decrease of 79,369 tonnes (1.4 per cent) over 2006. Landing charges are calculated from the MCTOW of aircraft landing at Auckland Airport.

Overseas visitor arrivals by purpose of visit

Purpose of visit	2007	2006	% Change	% of total
Business/conference	247,151	236,721	4.4	14.6
Holiday/vacation	787,717	777,377	1.3	46.5
Education/medical	41,906	39,777	5.4	2.5
Visiting friends/relatives	502,606	485,574	3.5	29.6
Other	116,358	110,747	5.1	6.9

Source: Statistics New Zealand

FINANCIAL PERFORMANCE

Airfield

As noted above, airfield landing charges are based on the MCTOW of aircraft. In the 2007 financial year, airfield income was $66.266 million, a decrease of $1.085 million (1.6 per cent) over 2006. This decrease was primarily due to the decrease 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 $64.389 million, an increase of $3.984 million (6.6 per cent) over the previous year.

During the period 1 July 2005 to 30 September 2005, the company paid to the government $5 of the ADC, which contributed to aviation security and civil aviation charges. From 1 October 2005, the company retained the full $25 in recognition of its major international terminal investment programme. The $5 previously paid to the government was transferred to the airline tickets from that date. In addition to the increase in departing international passengers, this contributed to the increase in ADC levied in 2007 when compared with the previous year.

The ADC remained throughout the year at $25 (GST inclusive) per departing international passenger 12 years old and over.

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 2007 financial year, the TSC was $21.888 million, an increase of $4.614 million (26.7 per cent) over 2006. 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 2007 financial year, retail income was $93.744 million, an increase of $7.032 million (8.1 per cent) over 2006.

Retail income per international passenger (including transits and transfers) was $12.87 in the 2007 year, compared with $12.21 in the previous year. The completion of the Pier A separation project resulted in improved passenger facilitation, an increase in retail spend and additional income from new retail stores.

Effective from 31 March 2007, international flights were being screened for the new liquids, aerosols and gels (LAGs) security requirements, which had some immediate impact on retail sales. International travellers have adapted well to the new security requirements and adverse long-term effects on retail sales due to the new security requirements are not expected.

Property rentals

Auckland Airport earns rental revenue from space leased in facilities such as terminals and cargo buildings, and standalone investment properties. Rental income was $33.267 million in 2007, an increase of $1.765 million (5.6 per cent) over 2006. This was largely due to positive rent reviews reflecting firm commercial market trends and revenue from a number of new projects such as Expeditors, Lollipops Educare, New Zealand Van Lines, Fliway Logistics and Air New Zealand's freight terminals.

During the 2007 year, the company invested $18.035 million in various property projects. This compared with $6.141 million invested in the previous year. A total of $14.6 million of new developments was committed during the year. These included a number of new design/build developments or expansion projects for Air National and Barber Logistics.

The investment property portfolio had a market value of $329.740 million as at 30 June 2007. This represents an increase of $136.238 million (70.4 per cent) over the value of the portfolio from the previous year. The significant uplift in the value of the investment property portfolio resulted from development expenditure during the year of $15.249 million, reclassifications of property, plant and equipment to investment property of $35.780 million, and a revaluation increase of $85.209 million.

A large part of the revaluation increase, $54.607 million, relates to the land and buildings reclassified to investment property in 2007. The balance of the revaluation increase, $30.602 million, represents the revaluation of the equivalent portfolio as at 30 June 2006.

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-tax result or dividend distribution. Under New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), which Auckland Airport will adopt for the 2008 financial year, revaluations (both upward and downward) of investment properties will be recognised directly in the statement of financial performance which will flow through to equity as retained earnings.

Car parks

At 30 June 2007, the company had parking facilities for 8,449 cars. Revenue from car parks was $25.878 million, an increase of $1.031 million (4.1 per cent). This resulted primarily from the growth in the domestic terminal car park and revised staff car park tariff charges. In addition, outsourcing to Wilson Parking has enhanced service standards, achieved operational efficiencies and increased revenue.

Revenue

	2007 $m	2006 $m	% Change
Aeronautical revenue			
Airfield	66.266	67.351	-1.6
Development charge	64.389	60.405	6.6
Terminal services charge	21.888	17.274	26.7
	152.543	145.030	5.2
Non-aeronautical revenue			
Retail	93.744	86.712	8.1
Property rentals	33.267	31.502	5.6
Car parks	25.878	24.847	4.1
Interest	1.076	0.517	108.0
Utilities and general	14.534	16.518	-12.0
Associated companies	0.904	0.688	31.4
	169.403	160.784	5.4
Total revenue	321.946	305.814	5.3

Utilities and general

This category includes utilities (sale of electricity, gas and water), rates recoveries from tenants, transport license fees, counter rentals and other miscellaneous revenue items. Total income from these sources was $14.534 million, a decrease of $1.984 million (12.0 per cent) over the previous year. The previous year's income included $1.949 million profit on the sale of nine residential properties, which were surplus to requirements.

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 $79.147 million, an increase of $13.494 million (20.6 per cent) over the 2006 year.

The operating expenses were affected by the $9.925 million increase in the company's LTI schemes for senior management and staff. The significant lift in the company's share price during the last few months prior to the end of the financial year increased the company's liability by $9.925 million. This is a non-cash item in the 2007 Statement of financial performance. The liability is in respect of incentive plans covering a four year period, and is not directly related to Auckland Airport's day-to-day operating performance.

In addition, expenses associated with Waste Resources Limited, which discontinued operations in May 2006, amounted to $0.900 million. Staff costs were $35.962 million, an increase of $10.012 million (38.6 per cent), largely resulting from the increase in the company's LTI provision as mentioned above. Repairs and maintenance was $22.987 million, an increase of $2.487 million (12.1 per cent). This included $0.272 million in noise mitigation costs. Other costs, which include consultancy, legal expenses and supplies, were $13.927 million, an increase of $0.517 million (3.9 per cent) over the previous year.

SUBSIDIARIES AND ASSOCIATED COMPANIES

Auckland Airport 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 $0.904 million, an increase of 31.4 per cent over the previous year. The results to 30 June 2007 were not affected by the previous year's disrupted trading or relocation of food and beverage outlets in the international terminal during the pier separation project.

EBITDA AND EBITDA MARGIN

EBITDA was $242.799 million, an increase of $2.638 million (1.1 per cent) over 2006. This primarily resulted from the strong increase in revenue, but offset by the increase in the company's LTI provision. Hence the EBITDA margin was 75.4 per cent, a decrease from the 2006 margin of 78.5 per cent. Excluding the LTI provision, the EBITDA margin was 78.5 per cent, consistent with the previous year.

DEPRECIATION, INTEREST AND TAXATION

Depreciation and impairment expenses were $43.117 million, an increase of $4.571 million (11.9 per cent) over the previous year. This mainly resulted from the company's continuing capital expenditure programme over the year.

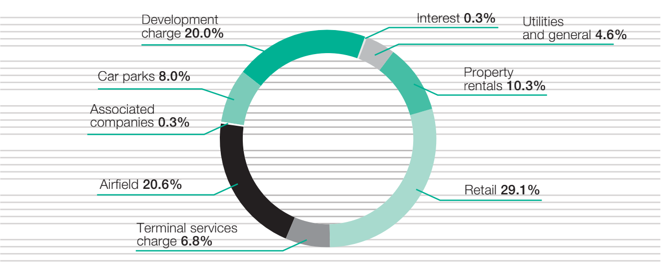
The annual interest charge was $62.747 million, an increase of $7.836 million (14.3 per cent) over 2006, and was largely due to an increase in total borrowings to $914.409 million at year-end, compared with $860.617 million as at the 2006 year-end. The increase in borrowings primarily resulted from the company's funding for the ongoing capital expenditure programme (see below). Interest costs were also affected by interest rates increasing throughout the year.

Taxation expense was $44.954 million, an increase of $1.405 million (3.2 per cent) over the previous year. The effective tax rate was 32.8 per cent, compared with 29.7 per cent in 2006. The increase in the effective tax rate resulted primarily from the non-deductible nature of the LTI provision in the 2007 year, combined with differences between accounting and taxation depreciation rates starting to reverse. The 2006 effective tax rate was also affected by the one-off impact of the sale of residential properties.

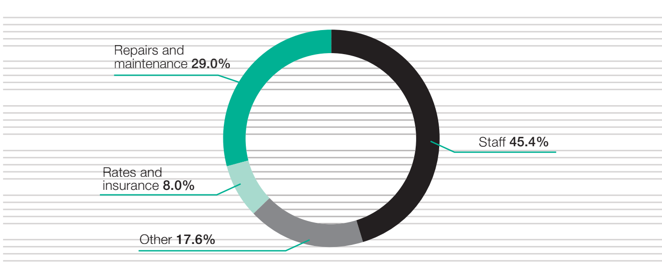
Operating expenses

	2007 $m	2006 $m	% Change
Staff	35.962	25.950	38.6
Repairs and maintenance	22.987	20.500	12.1
Rates and insurance	6.271	5.793	8.3
Other	13.927	13.410	3.9
Total operating expenses	79.147	65.653	20.6

Revenue by source



Operating expenses by category



SURPLUS AFTER TAXATION Surplus after taxation was $91.981 million, a decrease of $11.174 million (10.8 per cent) over 2006. Earnings per share were 7.53 cents per share. Adjusting for the increased LTI provision, surplus after tax was $101.906 million, a decrease of 1.2 per cent over the previous year, and earnings per share were 8.35 cents per share.

DIVIDENDS Total ordinary dividends for the 2007 financial year will amount to 8.20 cents per share (equivalent to last year) or $100.149 million in total. This equates to a dividend payout ratio of 108.9 per cent, compared with 97.0 per cent last year. Excluding the LTI provision, the dividend payout ratio was 98.3 per cent. The formal dividend payout policy remains at 90.0 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 19 October 2007 to shareholders on the register at the close of business on 12 October 2007. 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.

CASH FLOW Net cash flow from operating activities was $147.173 million, an increase of $9.778 million (7.1 per cent) over 2006. 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 the previous year.

Net cash outflow from investing activities was $101.874 million, a decrease of $4.450 million (4.2 per cent) over 2006. This primarily resulted from a small decrease in the amount of capital expenditure programme compared to last year.

Net cash outflow from financing activities was $44.029 million, an increase of $12.772 million (40.9 per cent), and mainly resulted from an increase in borrowings.

Cash flow

	2007 $m	2006 $m	% Change
Net cash flow from operating activities	147.173	137.395	7.1
Net cash flow from investing activities	(101.874)	(106.324)	-4.2
Net cash flow from financing activities	(44.029)	(31.257)	40.9
Net (decrease)/increase in cash held	1.270	(0.186)	782.8

FINANCIAL POSITION In accordance with applicable mandatory financial reporting requirements, investment properties are valued annually. Auckland Airport appointed Seagar & Partners (Auckland) Limited to undertake the independent valuations.

Based on the increases in market value of the investment properties, there was a $85.209 million increase in investment property.

Following the investment property revaluation, the company's balance sheet has improved. As at 30 June 2007, total assets amounted to $2,906.941 million, an increase of $149.080 million (5.4 per cent) over the previous year. The increase was primarily attributable to a reclassification of certain land from property, plant and equipment to investment properties, along with the investment properties revaluation process, and also the company's ongoing capital expenditure programme.

Shareholders' equity was $1,934.471 million, an increase of $79.369 million (4.3 per cent) over 2006. Again, this largely resulted from the investment properties revaluation process.

Gearing (measured as debt to debt plus shareholders' equity) increased to 32.1 per cent, as at 30 June 2007, from 31.7 per cent, as at 30 June 2006. Based on the recent movements in the market value of the company's equity, the gearing (on a debt to enterprise value basis) was 18.6 per cent as at 30 June 2007. Details of the company's borrowings are set out under Financing.

Financial position

As at 30 June	2007 $m	2006 $m	% Change
Non-current assets	2,878.089	2,730.995	5.4
Current assets	28.852	26.866	7.4
Total assets	2,906.941	2,757.861	5.4
Non-current liabilities	595.865	601.767	-1.0
Current liabilities	376.605	300.992	25.1
Equity	1,934.471	1,855.102	4.3
Total equity and liabilities	2,906.941	2,757.861	5.4

CAPITAL STRUCTURE AND CREDIT RATING The company continues to explore alternatives to optimise its capital structure and enhance value for shareholders. During 2007, the company has considered a range of value enhancing initiatives, which have included discussions with parties seeking to acquire an ownership interest in Auckland Airport.

On 19 June 2007, Standard & Poor's reduced Auckland Airport's long-term credit rating from A Stable to A Negative. The short-term credit rating has remained unchanged at A-1. The change in rating was a direct result of the company announcing its consideration of these value-enhancing initiatives and the possibility of increased debt levels. The company's credit rating, however, still reflects its continued strong business position, diversified income streams, low-risk profile and prudent levels of gearing.

Capital expenditure

Category	2007 $m	Key projects
Airfield	10.168	Taxiway reconstruction and northern runway development
International terminal	44.120	Arrivals expansion, Pier B, and western forecourt, ground power units and separation of the international Pier A
Car parking	0.468	Domestic multi-level facility
Domestic terminal	20.591	Air New Zealand domestic terminal renovation, new retail precinct and miscellaneous items
Infrastructure and other	12.024	Northern airport development
Property development	18.035	Fliway Logistics, Air New Zealand Cargo, Expeditors, Lollipops and NZ Van Lines
Total	105.406	

CAPITAL EXPENDITURE The company invested $105.406 million during the year, including capitalised interest, in a range of projects to increase capacity and upgrade facilities. 2007 was the third year of an increased capital expenditure programme to develop and expand Auckland Airport's aeronautical facilities and services. In 2006, the company invested $109.545 million in a range of projects, including runway rehabilitation and widening, separation of the international pier, hold stow baggage screening facility, commencement of the Air New Zealand domestic terminal renovation and new retail precinct, domestic terminal multi-level car parking facility, property developments, and various infrastructure assets.

Investment of $44.120 million was made in the international terminal, mainly comprising the arrivals expansion $24.405 million, Pier B $6.133 million, western forecourt projects $4.001 million, and $4.854 million for the ground power units and separation of Pier A.

The company currently expects to invest approximately $161 million in the 2008 financial year and $113 million in 2009 financial year on a range of projects. This includes continued works on the expanded arrivals project and the new Pier B at the international terminal. Details of the key projects are set out in the Chief executive officer's report, and are summarised in the table on page 42.

FORECAST CAPITAL EXPENDITURE In 2008, major terminal expansion projects are programmed for completion. The company is giving consideration to the next stage of development of the arrivals process at the international terminal, known as Stage 3B. The government and border agencies have indicated a strong interest in completing this stage of the arrivals expansion of the international terminal before the Rugby World Cup in 2011.

The company had planned to have this stage completed in 2012 or 2013, but is now giving government's representations serious consideration.

This project has an estimated cost of $160 million (excluding ancillary roading and car parking costs) spread over two and a half years. No final decision on this project has been made, and the aeronautical charges announced in July 2007 do not reflect this project being completed on the earlier timetable. Auckland Airport is continuing to consult with the airlines with respect to this project.

In 2010, capital expenditure is anticipated to be around $90 million to $100 million (excluding property developments), with $54 million assumed for Stage 3B.

Forecast capital expenditure

Category	2008 $m	2009 $m
Airfield	14	22
International terminal:		
Expanded arrivals	46	–
Pier B	26	8
Stage 3B	12	23
Other projects	16	11
Domestic terminal renovation	7	1
Car parking	1	–
Infastructure and other	14	13
Property development	25	35
Total capital expenditure	161	113

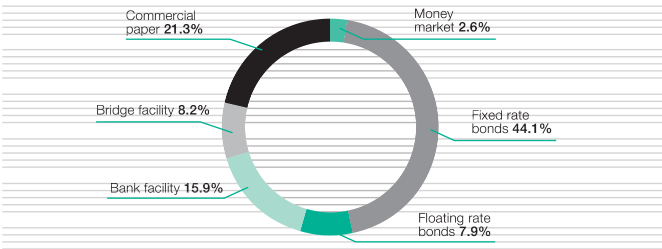
FINANCING As at 30 June 2007, the company's total borrowings were $914.409 million, an increase of $53.792 million (6.3 per cent) over the previous year. Short-term borrowings with a maturity of one year or less accounted for $318.984 million (34.9 per cent) of this amount. The balance of $595.425 million (65.1 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 2007, $145 million was drawn down on this facility, with the remaining $130 million being committed but undrawn.

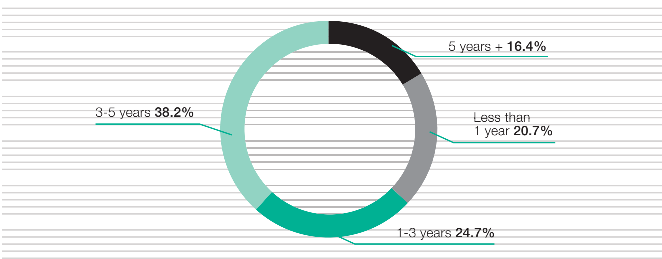
In October 2006, the company established a bridge facility with the Bank of New Zealand for up to $175 million to fund the bond maturities on 15 November 2006 and 16 July 2007. This bridge expires on 15 November 2008. As at 30 June 2007, $75 million was drawn down.

The company's borrowings also include commercial paper, totalling $195.000 million as at 30 June 2007, and floating and fixed rate bonds totalling $475.809 million as at 30 June 2007. The commercial paper programme is supported by a $100 million stand-by facility. The company 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.

Borrowings by category



Borrowings by maturity profile



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 now a long-term credit rating from Standard & Poor's of A Negative and a short-term rating of A-1. The long-term rating outlook was reduced from Stable to Negative following the announcement in June that the company is in discussions with a number of parties regarding value enhancing opportunities.

KEY PERFORMANCE INDICATORS

The company actively monitors a range of key performance indicators which includes both financial and operating ratios. The key ratios are set out in the table opposite. Note that these indicators include the impact of the increased LTI provision referred to above.

The EBITDA margin, which is a measure of the company's operating efficiency, decreased from last year due to the increase in LTI provision. The EBITDA margin would have remained consistent with the previous year had there been no increase in the LTI liability. The company has continued to demonstrate improving operating efficiencies, which is highlighted in an increase to operating revenue per operating staff member.

The company's gearing and interest coverage ratios have declined over the year following the company's continued investment in its capital expenditure programme and the increase in the incentive plan liability.

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 completed 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.

Key performance indicators

	2007	2006	% Change
Financial performance			
EBITDA margin	75.4%	78.5%	-4.0
Return on total assets	3.2%	3.7%	-15.4
Earnings per share (cps)	7.53	8.44	-10.8
Financial position and gearing			
Debt/Debt + equity	32%	32%	1.2
Debt/EBITDA	3.8	3.6	5.0
EBITDA interest cover	3.7	4.2	-11.0
EBIT interest cover	3.0	3.5	-12.9
Operating efficiencies			
Passengers per operating staff	43,908	43,404	1.2
Operating revenue per operating staff	$1,144,126	$1,100,051	4.0
Operating revenue per passenger	$26.06	$25.34	2.8
Retail revenue per international passenger	$12.87	$12.21	5.4
Car park revenue per passenger	$2.26	$2.22	1.7
Operating staff costs/operating revenue	11.2%	8.5%	31.6

The figures for the 2007 year above include the LTI provision.

Don Huse
Chief executive officer
23 August 2007

Robert Sinclair
Chief financial officer
23 August 2007

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Governance and disclosures:

STATEMENT OF FINANCIAL PERFORMANCE

For the year ended 30 June 2007

		GROUP		PARENT	
		2007	2006	2007	2006
	Notes	$000	$000	$000	$000
Operating revenue					
Airfield income		66,266	67,351	66,266	67,351
Development charge		64,389	60,405	64,389	60,405
Terminal services charge		21,888	17,274	21,888	17,274
Retail income		93,744	86,712	93,744	86,712
Rental income		33,267	31,502	33,282	31,658
Rates recoveries		2,736	2,285	2,739	2,306
Car park income		25,878	24,847	25,878	24,847
Interest income		1,076	517	1,048	517
Other		12,702	14,921	12,698	12,839
Total revenue	6	321,946	305,814	321,932	303,909
Expenses					
Staff	3	35,962	25,950	35,967	25,465
Repairs and maintenance		22,987	20,500	23,293	19,222
Rates and insurance		6,271	5,793	6,274	5,791
Other		13,927	13,410	13,951	13,285
Total operating expenses	3	79,147	65,653	79,485	63,763
Earnings before interest, taxation and depreciation (EBITDA)		242,799	240,161	242,447	240,146
Depreciation	3	43,117	38,546	43,117	38,349
Earnings before interest and taxation (EBIT)		199,682	201,615	199,330	201,797
Interest expense	3	62,747	54,911	62,747	54,911
Surplus before taxation		136,935	146,704	136,583	146,886
Taxation expense	4	44,954	43,549	45,343	43,612
Surplus after taxation	6	91,981	103,155	91,240	103,274

The notes and accounting policies on pages 50 to 70 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 2007

		GROUP		PARENT	
	Notes	2007 $000	2006 $000	2007 $000	2006 $000
Total recognised revenues and expenses					
Net surplus for the year		91,981	103,155	91,240	103,274
Increase in value of property, plant and equipment	18	–	1,385,718	–	1,385,718
Increase in value of investment properties	19	85,209	13,615	85,209	13,615
		177,190	1,502,488	176,449	1,502,607
Contribution from owners					
Increase in share capital	12	2,285	3,485	2,285	3,485
		2,285	3,485	2,285	3,485
Distributions to owners					
Ordinary dividends paid	7	(100,106)	(100,228)	(100,106)	(100,228)
Buy-back of shares	12	–	(8,192)	–	(8,192)
		(100,106)	(108,420)	(100,106)	(108,420)
Movements in equity for the year		79,369	1,397,553	78,628	1,397,672
Equity at beginning of year		1,855,102	457,549	1,855,468	457,796
Equity at end of year		1,934,471	1,855,102	1,934,096	1,855,468

The notes and accounting policies on pages 50 to 70 form part of and are to be read in conjunction with these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 30 June 2007

	Notes	GROUP 2007 $000	GROUP 2006 $000	PARENT 2007 $000	PARENT 2006 $000
Non-current assets					
Property, plant and equipment	8	2,543,682	2,533,430	2,543,682	2,533,430
Investment properties	9	329,740	193,502	329,740	193,502
Investment in subsidiary and associated company	5	3,892	2,988	4,484	3,705
Other non-current assets		775	1,075	775	1,075
		2,878,089	2,730,995	2,878,681	2,731,712
Current assets					
Bank	10	1,594	324	1,057	–
Inventories		134	100	134	100
Prepayments		4,815	3,616	4,815	3,616
Accounts receivable	11	12,129	11,935	12,129	11,687
Taxation receivable		10,180	10,891	9,745	10,823
		28,852	26,866	27,880	26,226
Total assets		2,906,941	2,757,861	2,906,561	2,757,938
Shareholders' equity					
Issued and paid-up capital	12	169,195	166,910	169,195	166,910
Cancelled share reserve	13	(161,304)	(161,304)	(161,304)	(161,304)
Retained earnings		(34,047)	(25,387)	(34,422)	(25,021)
Property, plant and equipment revaluation reserve	18	1,779,705	1,808,241	1,779,705	1,808,241
Investment property revaluation reserve	19	180,922	66,642	180,922	66,642
		1,934,471	1,855,102	1,934,096	1,855,468
Non-current liabilities					
Term borrowings	14	595,425	600,809	595,425	600,809
Other term liabilities		440	958	440	958
		595,865	601,767	595,865	601,767
Current liabilities					
Bank overdraft	10	–	–	–	125
Accounts payable	15	54,559	38,290	54,554	37,876
Short-term borrowings	14	318,984	259,808	318,984	259,808
Provision for noise mitigation	22	3,062	2,894	3,062	2,894
		376,605	300,992	376,600	300,703
Total equity and liabilities		2,906,941	2,757,861	2,906,561	2,757,938

The notes and accounting policies on pages 50 to 70 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 23 August 2007.
Signed on behalf of the board by:

John Maasland
Director, chairman of the board

Anthony Frankham
Director, chairman of the audit and risk committee

STATEMENT OF CASH FLOWS

For the year ended 30 June 2007

		GROUP		PARENT	
		2007	2006	2007	2006
	Notes	$000	$000	$000	$000
Cash flow from operating activities					
Cash was provided from:					
Receipts from customers		320,434	300,580	320,201	298,527
Interest received		1,076	517	1,048	580
Dividends from associated companies	5	–	500	–	500
		321,510	301,597	321,249	299,607
Cash was applied to:					
Payments to suppliers and employees		(66,987)	(60,727)	(66,919)	(58,779)
Income tax paid		(44,243)	(51,383)	(44,265)	(51,378)
Other taxes paid		(318)	(496)	(317)	(485)
Interest paid		(62,789)	(51,596)	(62,788)	(51,596)
		(174,337)	(164,202)	(174,289)	(162,238)
Net cash flow from operating activities	16	147,173	137,395	146,960	137,369
Cash flow from investing activities					
Cash was provided from:					
Proceeds from Waste Resources Limited		–	–	125	–
Proceeds from sale of assets		233	2,983	233	2,921
Other investing activities		500	–	500	–
		733	2,983	858	2,921
Cash was applied to:					
Purchase of property, plant and equipment		(84,325)	(101,026)	(84,325)	(101,005)
Expenditure on investment properties		(15,249)	(4,448)	(15,249)	(4,448)
Interest paid – capitalised		(2,833)	(2,758)	(2,833)	(2,758)
Other investing activities		(200)	(1,075)	(200)	(1,075)
		(102,607)	(109,307)	(102,607)	(109,286)
Net cash applied to investing activities		(101,874)	(106,324)	(101,749)	(106,365)
Cash flow from financing activities					
Cash was provided from:					
Increase in share capital	12	2,285	3,485	2,285	3,485
Increase in borrowings		2,103,650	1,833,050	2,103,650	1,833,050
		2,105,935	1,836,535	2,105,935	1,836,535
Cash was applied to:					
Decrease in borrowings		(2,049,858)	(1,612,650)	(2,049,858)	(1,612,650)
Dividends paid		(100,106)	(246,950)	(100,106)	(246,950)
Buy-back of shares	12	–	(8,192)	–	(8,192)
		(2,149,964)	(1,867,792)	(2,149,964)	(1,867,792)
Net cash flow applied to financing activities		(44,029)	(31,257)	(44,029)	(31,257)
Net increase/(decrease) in cash held		1,270	(186)	1,182	(253)
Opening cash brought forward		324	510	(125)	128
Ending cash carried forward	10	1,594	324	1,057	(125)

The notes and accounting policies on pages 50 to 70 form part of and are to be read in conjunction with these financial statements.

NOTES AND ACCOUNTING POLICIES

For the year ended 30 June 2007

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. 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 registered 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 land and 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 registered 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 for bank, investments and receivables 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

There have been no changes to accounting policies during the year. Accounting policies have been applied on a basis consistent with the prior year.

(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 2007

3. Expenses

	GROUP		PARENT	
	2007 $000	2006 $000	2007 $000	2006 $000
Operating expenses include:				
Audit fees	154	145	154	145
Auditor's other attestation fees	38	46	38	46
Auditor's other compliance fees	143	164	143	155
Directors' fees	597	482	597	482
Donations	48	23	48	23
Doubtful debts written off	148	43	148	43
Doubtful debts – change in provision	(148)	40	(148)	40
Loss on disposal of property, plant and equipment	798	1,452	798	1,459
Staff expenses comprise:				
Salaries and wages	20,091	19,097	20,091	18,721
Phantom option plan (refer note 25)	9,925	475	9,925	475
Other staff costs	5,946	6,378	5,951	6,269
	35,962	25,950	35,967	25,465
Depreciation by asset class:				
Buildings and services	21,096	21,455	21,096	21,455
Infrastructure	7,460	7,434	7,460	7,432
Runway, taxiways and aprons	10,299	5,200	10,299	5,200
Vehicles, plant and equipment	4,262	4,457	4,262	4,262
Total depreciation by asset class	43,117	38,546	43,117	38,349
Interest expense comprises:				
Interest on borrowings	65,580	57,669	65,580	57,669
Interest capitalised	(2,833)	(2,758)	(2,833)	(2,758)
	62,747	54,911	62,747	54,911

4. Taxation

	GROUP		PARENT	
	2007 $000	2006 $000	2007 $000	2006 $000
(a) Taxation expense				
Surplus before taxation	136,935	146,704	136,583	146,886
Prima facie taxation at 33%	45,189	48,412	45,072	48,472
Adjustments:				
Taxation effect of permanent differences	342	566	673	592
Taxation effect of share of associates' tax-paid earnings	(299)	(227)	(299)	(227)
Taxation effect of timing differences not recognised	764	(3,879)	939	(3,902)
Taxation adjustment relating to previous years	(1,042)	(1,077)	(1,042)	(1,077)
Imputation credits	–	(246)	–	(246)
Taxation expense	44,954	43,549	45,343	43,612

The Government has announced that the company tax rate will reduce from 33% to 30% effective for financial years beginning on or after 1 April 2008.

Total unrecognised deferred tax liability at balance date is $21.317 million for the parent (2006: $23.715 million) and $21.317 million for the group (2006: $23.799 million). The deferred tax has been calculated after taking into account the change in company tax rate from 1 July 2008. The change in company tax rate had an impact on the unrecognised deferred tax liability of $2.178 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.

	GROUP 2007 $000	GROUP 2006 $000	PARENT 2007 $000	PARENT 2006 $000
(b) Imputation credits				
Balance at beginning of year	47,910	45,517	47,905	45,517
Income tax paid	38,153	44,853	38,146	44,848
Credits attached to dividends paid	(42,869)	(42,706)	(42,869)	(42,706)
Credits attached to dividends received	–	246	–	246
Balance at end of year	43,194	47,910	43,182	47,905

NOTES AND ACCOUNTING POLICIES continued

For the year ended 30 June 2007

5. Subsidiary and associated company

	HOLDING AMOUNT	
	2007	2006
	%	%
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 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 no dividends from HMSC-AIAL Limited during the year (2006: $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 30 June. As set out in note 6 below, Waste Resources Limited ceased trading on 19 May 2006.

	GROUP		PARENT	
	2007	2006	2007	2006
	$000	$000	$000	$000
Investment in subsidiary and associated company				
HMSC-AIAL Limited	3,892	2,988	3,892	2,988
Waste Resources Limited	–	–	592	717
	3,892	2,988	4,484	3,705
Carrying amount of associate company				
Share of surplus of associated company	1,350	1,027	1,350	1,027
Taxation expense	(446)	(339)	(446)	(339)
Share of surplus after tax of associated company	904	688	904	688
Less share of dividends received	–	(500)	–	(500)
Net addition in equity carrying value	904	188	904	188
Share of associated company's equity at beginning of the year	1,483	1,295	1,483	1,295
Total share of increase in associated company's equity since acquisition	2,387	1,483	2,387	1,483
Cost of investment in associated company	1,505	1,505	1,505	1,505
	3,892	2,988	3,892	2,988
Carrying amount of subsidiary company				
Opening cost of investment in subsidiary	–	–	717	717
Decrease in investment in subsidiary	–	–	(125)	–
	–	–	592	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 on 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	
	2007 $000	2006 $000	2007 $000	2006 $000
Operating revenue				
Continuing activities	321,932	303,909	321,932	303,909
Discontinued activities	14	1,905	–	–
	321,946	305,814	321,932	303,909
Surplus after taxation				
Continuing activities	92,139	103,274	92,139	103,274
Discontinued activities	(158)	(119)	(900)	–
	91,981	103,155	91,240	103,274

7. Distribution to shareholders

2006 final dividend of 4.45 cents per share (fully imputed) paid on 20 October 2006 (2005: 4.45 cents)	54,322	54,442	54,322	54,442
2007 interim dividend of 3.75 cents per share (fully imputed) paid on 30 March 2007 (2006: 3.75 cents)	45,784	45,786	45,784	45,786
Total distributions (net of supplementary dividends)	100,106	100,228	100,106	100,228

The number of issued and paid-up shares as at 30 June 2007 was 1,221,690,439 (2006: 1,220,509,639).

Supplementary dividends paid of $6.087 million (2006: $6.383 million) are not included in the above dividends as the company receives an equivalent tax credit from the Inland Revenue Department.

On 23 August 2007, the directors approved the payment of a 2007 fully imputed final dividend of $54.365 million (4.45 cents per share) to be paid on 19 October 2007.

NOTES AND ACCOUNTING POLICIES continued

For the year ended 30 June 2007

8. Property, plant and equipment

	GROUP		PARENT	
	2007 $000	2006 $000	2007 $000	2006 $000
Land				
At valuation	1,609,260	1,645,040	1,609,260	1,645,040
At cost	1,545	–	1,545	–
Work in progress at cost	–	579	–	579
	1,610,805	1,645,619	1,610,805	1,645,619
Buildings and services				
At valuation	409,892	409,892	409,892	409,892
At cost	21,509	–	21,509	–
Work in progress at cost	58,497	15,500	58,497	15,500
Accumulated depreciation	(21,096)	–	(21,096)	–
	468,802	425,392	468,802	425,392
Infrastructure				
At valuation	189,810	190,264	189,810	190,264
At cost	9,072	–	9,072	–
Work in progress at cost	7,465	5,478	7,465	5,478
Accumulated depreciation	(7,436)	–	(7,436)	–
	198,911	195,742	198,911	195,742
Runway, taxiways and aprons				
At valuation	251,620	251,961	251,620	251,961
At cost	4,569	–	4,569	–
Work in progress at cost	6,729	2,894	6,729	2,894
Accumulated depreciation	(10,271)	–	(10,271)	–
	252,647	254,855	252,647	254,855
Vehicles, plant and equipment				
At cost	41,777	39,567	41,777	39,567
Work in progress at cost	2,965	671	2,965	671
Accumulated depreciation	(32,225)	(28,416)	(32,225)	(28,416)
	12,517	11,822	12,517	11,822
Total property, plant and equipment	2,543,682	2,533,430	2,543,682	2,533,430

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 in 2006 are consistent with the methodologies used 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. The 2006 revaluation resulted in 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 2007 include capitalised interest of $2.833 million (2006: $2.758 million).

NOTES AND ACCOUNTING POLICIES continued

For the year ended 30 June 2007

9. Investment properties

	GROUP		PARENT	
	2007	2006	2007	2006
	$000	$000	$000	$000
Investment properties at valuation	329,621	189,577	329,621	189,577
Investment properties under construction at cost	119	3,925	119	3,925
	329,740	193,502	329,740	193,502

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 methodologies used were a direct sales comparison or a direct capitalisation of rental income using market comparisons of capitalisation rates, supported by a discounted cash flow approach. The valuation methodologies are consistent with the prior year.

During the year, certain areas of land classified as property, plant and equipment was determined by directors to be held primarily for the purposes of obtaining the benefits of rental income. These areas of land, totalling 96.5 hectares, have been reclassified to investment property. The carrying value of the land at the time of reclassification to investment property was $35.780 million.

The valuation as at 30 June 2007 resulted in an increased market value over book value of $85.209 million (2006: $13.615 million) which has been recorded as an increase in the investment property revaluation reserve.

10. Bank balances

Cash and bank balances	1,594	324	1,057	(125)

During the year, surplus funds were deposited on the New Zealand money market at rates of 7.25% to 8.00% (2006: 6.75% to 7.25%).

11. Accounts receivable

Receivables	12,372	12,275	12,372	12,027
Less: Provision for doubtful debts	(243)	(340)	(243)	(340)
	12,129	11,935	12,129	11,687

12. Issued and paid-up capital

	GROUP		PARENT	
	2007 $000	2006 $000	2007 $000	2006 $000
Issued and paid-up capital at the beginning of the year	166,910	163,940	166,910	163,940
Add: Options exercised and shares issued during the year	2,285	3,485	2,285	3,485
Less: Buy-back of shares during the year	–	(515)	–	(515)
Total issued and paid-up capital	169,195	166,910	169,195	166,910

The number of issued and paid-up shares as at 30 June 2007 was 1,221,690,439 (2006: 1,220,509,639).

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

Cancelled share reserve at the beginning of the year	(161,304)	(153,627)	(161,304)	(153,627)
Buy-back of shares during the year	–	(7,677)	–	(7,677)
	(161,304)	(161,304)	(161,304)	(161,304)

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.

NOTES AND ACCOUNTING POLICIES continued

For the year ended 30 June 2007

14. Borrowings

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

		GROUP		PARENT	
		2007	2006	2007	2006
	Coupon	$000	$000	$000	$000
Term borrowings					
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	37,155	37,155
Bonds maturing 15 November 2008	6.64%	38,270	38,270	38,270	38,270
Bonds maturing 29 July 2009	6.67%	66,900	66,900	66,900	66,900
Bonds maturing 29 July 2009	Floating	8,100	8,100	8,100	8,100
Bonds maturing 29 July 2011	6.83%	70,000	70,000	70,000	70,000
Bonds maturing 29 July 2011	Floating	5,000	5,000	5,000	5,000
Bonds maturing 7 November 2012	7.19%	50,000	50,000	50,000	50,000
Bonds maturing 7 November 2015	7.25%	100,000	100,000	100,000	100,000
Bridge facility	Floating	75,000	–	75,000	–
Bank facility	Floating	145,000	125,000	145,000	125,000
Term borrowings		595,425	600,809	595,425	600,809
Short-term borrowings					
Bonds maturing 15 November 2006	8.00%	–	32,223	–	32,223
Bonds maturing 15 November 2006	6.50%	–	34,485	–	34,485
Bonds maturing 15 November 2006	Floating	–	8,900	–	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	–
Commercial paper maturing within 3 months	Floating	195,000	180,000	195,000	180,000
Money market	Floating	23,600	4,200	23,600	4,200
Short-term borrowings		318,984	259,808	318,984	259,808
Total borrowings		914,409	860,617	914,409	860,617

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

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.

In October 2006, the company established a bridge facility with Bank of New Zealand for up to $175 million to fund the bond maturities on 15 November 2006 and 16 July 2007. The bridge facility expires on 15 November 2008.

Borrowings under the bank facility, bridge facility and stand-by facilities are supported by a negative pledge deed. Borrowings under the bond programme are supported by a negative pledge deed or a master trust 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 2007 the range of interest rates has been between 7.65% and 8.39% (2006: 7.18% and 8.06%). Commercial paper rates are set through a tender process and during the year ended 30 June 2007 the range of interest rates has been between 7.44% and 8.39% (2006: 7.01% and 7.67%). The bank facility rates during the year have been between 7.72% and 8.66% (2006: 7.72% and 7.96%). The bridge facility rates during the year have been between 7.65% and 8.33%. 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 2007 the range of interest rates on the money market has been between 7.30% and 8.05% (2006: 6.80% and 7.30%).

15. Accounts payable

	GROUP		PARENT	
	2007	2006	2007	2006
	$000	$000	$000	$000
Employee entitlements	4,491	4,221	4,491	4,221
Phantom option plan accrual (refer note 25)	10,800	875	10,800	875
GST payable	1,878	1,543	1,873	1,547
Property, plant and equipment retentions and payables	17,123	14,269	17,123	14,269
Trade payables	493	569	493	446
Other payables and accruals	19,774	16,813	19,774	16,518
	54,559	38,290	54,554	37,876

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

Surplus after taxation	91,981	103,155	91,240	103,274
Non-cash items:				
Depreciation	43,117	38,546	43,117	38,349
Bad and doubtful debts	–	83	–	83
Equity accounted earnings from associates	(904)	(188)	(904)	(188)
Items not classified as operating activities:				
Asset disposals	798	(497)	798	(490)
(Increase)/decrease in property, plant and equipment retentions and payables	(3,022)	(1,566)	(3,022)	(1,334)
Increase/(decrease) in employee share purchase loan	105	(130)	105	(130)
Movement in working capital:				
(Increase)/decrease in current assets	(1,533)	(992)	(1,676)	(1,078)
(Increase)/decrease in taxation receivable	711	(7,834)	1,078	(7,766)
Increase/(decrease) in accounts payable	16,438	6,957	16,742	6,787
Increase/(decrease) in other term liabilities	(518)	(139)	(518)	(138)
Net cash flow from operating activities	147,173	137,395	146,960	137,369

NOTES AND ACCOUNTING POLICIES continued

For the year ended 30 June 2007

17. Financial instruments

Interest rate and credit management

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

Interest rate risk

The company's policy is to manage its interest rate risk. At year-end, 41% (2006: 53%) 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	
	2007 $000	2006 $000	2007 $000	2006 $000
Interest rate swaps	477,900	543,000	477,900	543,000
Forward rate agreements	–	60,000	–	60,000

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 $0.440 million (2006: $0.958 million). There are no significant concentrations of credit risk.

Fair value

Bank, investments, receivables, trade payables, money market borrowings, bridge facility, 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:

	2007 Carrying value $000	2007 Fair value $000	2006 Carrying value $000	2006 Fair value $000
Interest rate swaps	–	7,024	–	2,132
Forward rate agreements	–	–	–	(8)
Bonds	475,809	468,058	551,417	562,055

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

18. Property, plant and equipment revaluation reserve

	GROUP		PARENT	
	2007	2006	2007	2006
	$000	$000	$000	$000
Balance at beginning of year	1,808,241	422,523	1,808,241	422,523
Property, plant and equipment net revaluations	–	1,385,718	–	1,385,718
Reclassification of reserve on transfer to investment property	(29,071)	–	(29,071)	–
Reclassification of reserve on disposal	535	–	535	–
Balance at end of year	1,779,705	1,808,241	1,779,705	1,808,241
By asset class:				
Land	1,447,789	1,476,860	1,447,789	1,476,860
Buildings and services	152,365	152,365	152,365	152,365
Infrastructure	92,878	93,051	92,878	93,051
Runway, taxiways and aprons	86,673	85,965	86,673	85,965
	1,779,705	1,808,241	1,779,705	1,808,241

Certain previously revalued property, plant and equipment items were disposed during the year. The disposal resulted in the reclassification of the revaluation reverse to retained earnings for these items.

19. Investment property revaluation reserve

Balance at beginning of year	66,642	53,027	66,642	53,027
Reclassification of reserve from property, plant and equipment revaluation reserve	29,071	–	29,071	–
Investment properties net revaluations	85,209	13,615	85,209	13,615
Balance at end of year	180,922	66,642	180,922	66,642

20. Capital commitments

Capital commitments entered into but not accrued at balance date were $79.661 million (2006: $42.543 million). These relate to airport development projects.

NOTES AND ACCOUNTING POLICIES continued

For the year ended 30 June 2007

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 in late 2010 or early 2011 and will provide a runway of 1,200 metres. This can be increased to 2,150 metres in the future.

As provided for in 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 $0.274 million (relating to the 2007 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.

In October and November 2006, the company made offers to the owners of a further 750 homes and to Clover Park School, Redoubt North School and South Auckland Seventh Day Adventist School. These offers remain open for 12 months. As at 30 June 2007, the company had received acceptances from the owners of 15 homes and South Auckland Seventh Day Adventist School. The estimated costs to be incurred in respect of these offers is included in the provision for noise mitigation.

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 $11.0 million. Pursuant to the aeronautical pricing consultation process between the company and its substantial customers completed on 2 July 2007, future noise costs will be shared between the company and the airlines on a fair and equitable basis. Aeronautical pricing is reviewed at least every five years.

Claim under Public Works Act

The company has received a claim from the Craigie Trust regarding certain land acquired for aerodrome purposes during the 1970s. The land in question is 36.4 hectares, a small proportion of the company's total land holding. The Craigie Trust, as original owner of the land, asserts that the land ceased (between 1985 and 1989) to be required by the company for the public work for which it was acquired and should be offered back to it under the Public Works Act 1981. The claim is being vigorously defended by the company. The directors are of the opinion that there are strong arguments to defend the claim.

There were no other contingent liabilities outstanding at 30 June 2007 (2006: 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 Puhinui School in respect of existing buildings. Those offers have now expired with acceptances received from 46 houses and Puhinui School.

In October and November 2006, the company made offers to the owners of a further 750 homes and to Clover Park School, Redoubt North School and South Auckland Seventh Day Adventist School. These offers remain open for 12 months. As at 30 June 2007, the company had received acceptances from the owners of 15 homes and South Auckland Seventh Day Adventist 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	
	2007	2006	2007	2006
	$000	$000	$000	$000
Opening balance	2,894	–	2,894	–
Provisions made in the period	2,411	2,894	2,411	2,894
Unused amounts reversed in the period	(899)	–	(899)	–
Expenditure in the period	(1,344)	–	(1,344)	–
	3,062	2,894	3,062	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 2007 transactions with HMSC-AIAL Limited totalled $0.257 million (2006: $0.416 million) and with Waste Resources Limited totalled $0.016 million (2006: $0.131 million). As at 30 June 2007, $0.007 million was owed by HMSC-AIAL Limited (2006: $0.233 million). No amounts were owed by Waste Resources Limited at 30 June 2007 (2006: $0.011 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 were common directorships during the financial year.

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 company to the purchase plan at balance date is $0.010 million (2006: $0.095 million receivable). 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 J C Nicholl, R G Sinclair and C F Spillane. J C Nicholl is the general manager of people and performance, R G Sinclair is the chief financial officer and C F Spillane is general counsel and corporate secretary of Auckland International Airport Limited respectively. They are appointed and can be removed by the company.

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

	2007 Shares	2006 Shares
Allocation - May 2004		
Opening balance	270,960	294,620
Shares forfeited during the year	(14,340)	(18,200)
Shares fully paid during the year	(251,160)	(5,460)
Balance at end of year	5,460	270,960

Shares were issued at a price of $5.14 being a 20% 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.

	2007	2006
Unallocated shares held by the plan		
Balance of unallocated shares from November 1999 share allocation	91,584	91,584
Opening balance of unallocated shares from May 2004 share allocation	40,220	22,020
Shares forfeited to the plan during the year	14,340	18,200
	54,560	40,220
Total unallocated shares held by the plan	146,144	131,804
Total ordinary shares held at 30 June	151,604	402,764

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. The acquisition prices, after a share split adjustment, are $0.73 and $1.29 respectively.

Shares held by the purchase plan represent approximately 0.012% (2006: 0.033%) of the total company's shares on issue.

NOTES AND ACCOUNTING POLICIES continued

For the year ended 30 June 2007

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 ordinary 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 2007 are as follows:

	Issue price	Annual value $000	2007 Options	2006 Options
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			(2,822,400)	(2,548,800)
Opening balance of options outstanding			158,400	432,000
Options lapsed in current period			–	–
Options exercised in current period			(158,400)	(273,600)
Number of options outstanding at 30 June			–	158,400
Number of options issued on 6 September 2001	$1.34	285	3,052,800	3,052,800
Options lapsed in prior periods			(403,200)	(403,200)
Options exercised in prior periods			(1,872,000)	(1,713,600)
Opening balance of options outstanding			777,600	936,000
Options lapsed in current period			–	–
Options exercised in current period			(403,200)	(158,400)
Number of options outstanding at 30 June			374,400	777,600
Number of options issued on 9 September 2002	$1.46	415	3,628,800	3,628,800
Options lapsed in prior periods			(604,800)	(604,800)
Options exercised in prior periods			(1,512,000)	–
Opening balance of options outstanding			1,512,000	3,024,000
Options lapsed in current period			–	–
Options exercised in current period			(619,200)	(1,512,000)
Number of options outstanding at 30 June			892,800	1,512,000

25. Executive share option incentive plan continued

	Issue price	Annual value $000	2007 Options	2006 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			3,907,200	5,088,000

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, 2005 and 2006 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, 2005 and 2006 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 2007, the estimated accrued cost of the phantom plans is $10.800 million (2006: $0.875 million) and full provision has been made in the financial statements. The significant increase in this accrued cost is due to the considerable rise in the company's share price during the 2007 year. The accrued cost has been included in staff expenses in the 2007 statement of financial performance. It is a non-cash item in the 2007 year and is in respect of phantom plans covering a four year period.

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.

NOTES AND ACCOUNTING POLICIES continued

For the year ended 30 June 2007

27. Events subsequent to balance date

On 23 August 2007, the directors approved a fully imputed final dividend of $54.365 million (4.45 cents per share) to be paid on 19 October 2007.

On 23 July 2007, the company announced a proposed transaction with Dubai Aerospace Enterprise (DAE) which, if approved by shareholders, would see DAE acquire an interest between 51% and 60% in the company and become a strategic partner. The directors have unanimously recommended the proposed transaction in the absence of a superior proposal. It is expected that shareholders will be asked to vote on the proposal at a meeting in November 2007.

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 ended 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 completed work on system changes to capture additional information. The project is being managed internally with independent 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 is not 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

		GROUP					
	Note	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

28. Adoption of New Zealand equivalents to International Financial Reporting Standards continued

		PARENT					
	Note	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 recognised only 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, buildings and services, 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 net current value, being their 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 net current 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.

NOTES AND ACCOUNTING POLICIES continued

For the year ended 30 June 2007

28. Adoption of New Zealand equivalents to International Financial Reporting Standards continued

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, with a yet to be identified final use, 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, a DF7 plan under the Income Tax Act 1994, 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' reserves 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 46 to 70. 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 2007. This information is stated in accordance with the accounting policies set out on pages 50 to 51.

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 2007 and of the results of their operations and cash flows for the year ended on that date.

Auditor's 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 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 page 46 to 70:
  - 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 2007 and the results of their operations and cash flows for the year ended on that date.

Our audit was completed on 23 August 2007 and our unqualified opinion is expressed as at that date.

Deloitte

Chartered Accountants
Auckland, New Zealand

FIVE YEAR SUMMARY

For the year ended 30 June

Statement of financial performance

	2007 $000	2006 $000	2005 $000	2004 $000	2003 $000
Operating revenue					
Airfield income	66,266	67,351	66,280	64,157	55,498
Development charge	64,389	60,405	49,531	46,284	37,669
Terminal services charge	21,888	17,274	13,866	14,587	14,147
Retail income	93,744	86,712	84,681	82,206	75,472
Rental income	33,267	31,502	29,243	25,557	22,692
Rates recoveries	2,736	2,285	2,096	2,051	–
Car park income	25,878	24,847	23,396	18,448	14,896
Interest income	1,076	517	144	833	1,838
Other	12,702	14,921	13,488	9,064	7,666
Non-recurring revenue	–	–	–	–	6,667
Total revenue	321,946	305,814	282,725	263,187	236,545
Expenses					
Staff	35,962	25,950	24,024	22,452	22,886
Repairs and maintenance	22,987	20,500	18,469	17,787	16,549
Rates and insurance	6,271	5,793	5,482	5,036	2,606
Other	13,927	13,410	13,232	13,442	11,584
Total operating expenses	79,147	65,653	61,207	58,717	53,625
Earnings before interest, taxation and depreciation (EBITDA)	242,799	240,161	221,518	204,470	182,920
Depreciation and impairment expenses	43,117	38,546	31,895	31,487	30,593
Earnings before interest and taxation (EBIT)	199,682	201,615	189,623	172,983	152,327
Interest expense	62,747	54,911	36,229	33,474	32,234
Surplus before taxation	136,935	146,704	153,394	139,509	120,093
Taxation expense	44,954	43,549	47,753	45,194	36,592
Surplus after taxation	91,981	103,155	105,641	94,315	83,501

For the year ended 30 June

Statement of movements in equity

	2007 $000	2006 $000	2005 $000	2004 $000	2003 $000
Total recognised revenues and expenses					
Net surplus for the year	91,981	103,155	105,641	94,315	83,501
Increase in value of property, plant and equipment	–	1,385,718	–	–	–
Increase in value of investment properties	85,209	13,615	10,707	8,644	3,078
	177,190	1,502,488	116,348	102,959	86,579
Contribution from owners					
Increase in share capital	2,285	3,485	3,554	2,792	1,681
	2,285	3,485	3,554	2,792	1,681
Distributions to owners					
Ordinary dividends paid	(100,106)	(100,228)	(98,596)	(70,046)	(60,560)
Special dividends to be paid	–	–	(146,722)	–	–
Return of capital	–	–	–	–	(212,714)
Buy-back of shares	–	(8,192)	–	–	–
	(100,106)	(108,420)	(245,318)	(70,046)	(273,274)
Movements in equity for the year	79,369	1,397,553	(125,416)	35,705	(185,014)
Equity at beginning of year	1,855,102	457,549	582,965	547,260	732,274
Equity at end of year	1,934,471	1,855,102	457,549	582,965	547,260

FIVE YEAR SUMMARY continued

As at 30 June

Statement of financial position

	2007 $000	2006 $000	2005 $000	2004 $000	2003 $000
Non-current assets					
Property, plant and equipment					
Land	1,610,805	1,645,619	458,196	458,438	461,689
Buildings and services	468,802	425,392	310,246	277,086	273,932
Infrastructure	198,911	195,742	123,848	121,821	119,851
Runways, taxiways and aprons	252,647	254,855	181,702	128,163	114,221
Vehicles, plant and equipment	12,517	11,822	9,402	10,071	10,097
	2,543,682	2,533,430	1,083,394	995,579	979,790
Investment properties	329,740	193,502	175,439	157,669	120,724
Investment in subsidiary and associated company	3,892	2,988	2,800	2,499	2,006
Other non-current assets	775	1,075	–	–	–
	2,878,089	2,730,995	1,261,633	1,155,747	1,102,520
Current assets					
Bank	1,594	324	510	265	4,155
Inventories	134	100	110	458	539
Prepayments	4,815	3,616	3,705	1,514	2,029
Accounts receivable	12,129	11,935	10,929	11,702	6,668
Taxation receivable	10,180	10,891	3,057	–	769
	28,852	26,866	18,311	13,939	14,160
Total assets	2,906,941	2,757,861	1,279,944	1,169,686	1,116,680
Shareholders' equity					
Issued and paid-up capital	169,195	166,910	163,940	160,386	157,594
Cancelled share reserve	(161,304)	(161,304)	(153,627)	(153,627)	(153,627)
Retained earnings	(34,047)	(25,387)	(28,314)	111,363	87,094
Property, plant and equipment revaluation reserve	1,779,705	1,808,241	422,523	422,523	422,523
Investment property revaluation reserve	180,922	66,642	53,027	42,320	33,676
	1,934,471	1,855,102	457,549	582,965	547,260
Non-current liabilities					
Term borrowings	595,425	600,809	401,417	375,000	200,000
Other term liabilities	440	958	1,097	1,412	621
	595,865	601,767	402,514	376,412	200,621
Current liabilities					
Accounts payable	54,559	38,290	34,359	21,792	25,949
Provision for special dividend	–	–	146,722	–	–
Taxation provision	–	–	–	617	–
Short-term borrowings	318,984	259,808	238,800	187,900	342,850
Provision for noise mitigation	3,062	2,894	–	–	–
	376,605	300,992	419,881	210,309	368,799
Total equity and liabilities	2,906,941	2,757,861	1,279,944	1,169,686	1,116,680

For the year ended 30 June

Statement of cash flows

	2007 $000	2006 $000	2005 $000	2004 $000	2003 $000
Cash flow from operating activities					
Cash was provided from:					
Receipts from customers	320,434	300,580	281,137	257,631	226,396
Interest received	1,076	517	144	875	1,767
Dividends from associated companies	–	500	500	–	750
	321,510	301,597	281,781	258,506	228,913
Cash was applied to:					
Payments to suppliers and employees	(66,987)	(60,727)	(60,247)	(58,853)	(49,768)
Income tax paid	(44,243)	(51,383)	(51,427)	(43,808)	(36,631)
Other taxes paid	(318)	(496)	(514)	(445)	(347)
Interest paid	(62,789)	(51,596)	(38,557)	(32,915)	(28,090)
	(174,337)	(164,202)	(150,745)	(136,021)	(114,836)
Net cash flow from operating activities	147,173	137,395	131,036	122,485	114,077
Cash flow from investing activities					
Cash was provided from:					
Proceeds from sale of assets	733	2,983	1,402	22	10
	733	2,983	1,402	22	10
Cash was applied to:					
Purchase of property, plant and equipment	(84,325)	(101,026)	(105,095)	(49,403)	(18,504)
Expenditure on investment properties	(15,249)	(4,448)	(7,063)	(28,788)	(18,836)
Interest paid – capitalised	(2,833)	(2,758)	(2,310)	(580)	(314)
Shares in and advances to associated companies	–	–	–	–	(200)
Other investing activities	(200)	(1,075)	–	–	–
	(102,607)	(109,307)	(114,468)	(78,771)	(37,854)
Net cash applied to investing activities	(101,874)	(106,324)	(113,066)	(78,749)	(37,844)
Cash flow from financing activities					
Cash was provided from:					
Increase in share capital	2,285	3,485	3,554	2,370	1,681
Increase in borrowings	2,103,650	1,833,050	835,217	596,050	831,750
	2,105,935	1,836,535	838,771	598,420	833,431
Cash was applied to:					
Decrease in borrowings	(2,049,858)	(1,612,650)	(757,900)	(576,000)	(638,900)
Dividends paid	(100,106)	(246,950)	(98,596)	(70,046)	(60,560)
Return of capital	–	–	–	–	(212,714)
Buy-back of shares	–	(8,192)	–	–	–
	(2,149,964)	(1,867,792)	(856,496)	(646,046)	(912,174)
Net cash flow applied to financing activities	(44,029)	(31,257)	(17,725)	(47,626)	(78,743)
Net increase/(decrease) in cash held	1,270	(186)	245	(3,890)	(2,510)
Opening cash brought forward	324	510	265	4,155	6,665
Ending cash carried forward	1,594	324	510	265	4,155

FIVE YEAR SUMMARY continued

For the year ended 30 June

Capital expenditure

	2007 $m	2006 $m	2005 $m	2004 $m	2003 $m
Airfield	10.2	30.1	51.3	19.9	3.4
International terminal	44.1	42.8	59.5	16.7	5.5
Domestic terminals	20.6	4.2	1.1	0.2	0.4
Car parking	0.5	16.5	1.3	6.7	1.5
Infrastructure and other	12.0	9.8	6.9	3.8	2.7
Property development	18.0	6.1	7.7	28.1	23.9
Total	105.4	109.5	127.8	75.4	37.4

Key performance indicators

	2007	2006	2005	2004	2003
Financial performance					
EBITDA margin (%) #	75.4%	78.5%	78.4%	77.7%	76.7%
Return on total assets (%) #	3.2%	3.7%	8.3%	8.1%	6.9%
Earnings per share (cents)*	7.53	8.44	8.65	7.74	6.14
Financial position and gearing					
Debt/Debt + equity (%)	32.1%	31.7%	58.4%	49.2%	49.8%
Debt/EBITDA (times)	3.8	3.6	2.9	2.8	3.0
EBITDA interest cover (times)	3.7	4.2	5.7	6.0	5.6
EBIT interest cover (times)	3.0	3.5	4.9	5.1	4.7
Operating efficiencies					
Passengers per employee **	43,908	43,404	39,774	38,976	34,158
Operating revenue per operating staff ($)	1,144,126	1,100,051	999,028	953,576	832,891
Operating revenue per passenger ($) **	26.06	25.34	25.12	24.47	24.38
Retail revenue per international passenger ($) **	12.87	12.21	13.17	13.44	14.06
Car park revenue per passenger ($) **	2.26	2.22	2.14	1.77	1.64
Operating staff costs/operating revenue (%)	11.2%	8.5%	8.5%	8.5%	10.0%

** Note that, from October 2006, the company now receives more accurate transit and transfer data from Immigration New Zealand. The new data has now been compiled back to 1 July 2005. Data for the years 2003, 2004 and 2005 has not been compiled from the new data source. 2006 per passenger calculations have been adjusted accordingly.

* Adjusted for four-for-one split.

\# Excludes the effect of non-recurring revenue in 2003 and the LTI provision in 2007.

For the year ended 30 June

Passenger, aircraft and MCTOW

	2007	2006	2005	2004	2003
Passenger movements					
International*	7,286,397	7,103,035	6,432,161	6,116,655	5,370,989
Domestic	5,068,794	4,963,142	4,823,916	4,640,851	4,056,663
Aircraft movements					
International	38,406	38,759	38,465	36,885	31,434
Domestic	117,469	122,140	119,987	117,927	113,097
MCTOW (tonnes)					
International	4,085,290	4,186,813	4,140,882	3,983,093	3,335,626
Domestic	1,661,844	1,639,690	1,586,692	1,611,770	1,584,528

* Note that, from October 2006, the company now receives more accurate transit and transfer data from Immigration New Zealand. The new data has now been compiled back to 1 July 2005. Data for the years 2003, 2004 and 2005 has not been compiled from the new data source.

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 NZSX 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 set 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 two annual reports, 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 governance 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 decisionmaking:

- Audit and risk.
- 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 five 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.
- 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 Auckland Airport) 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:

John Maasland MA (Cantab) (chairman)

Anthony Frankham FCA, FAMINZ, AC Inst Arb (UK), AFInstD

Michael Smith MCom

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

Joan Withers MBA, AFInstD

Wayne Boyd was a director of the company during the financial year ended 30 June 2007 until his retirement at the company's annual meeting on 25 October 2006.

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.

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			Remuneration			Nominations		
		Member	No. of meetings	No. of 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	✓[1]	8	2	5	2	✓[1]	6	0	✓[1]	3	0	✓[1]	3	1
Anthony Frankham	Independent non-executive	✓	8	7	5	5	✓	6	6				✓	3	3
John Maasland	Independent non-executive	✓[2]	8	8	5	5	✓[2]	6	2	✓[2]	3	2	✓[2]	3	3
Michael Smith	Independent non-executive	✓	8	7	5	5				✓	3	3	✓	3	3
Keith Turner	Independent non-executive	✓	8	8	5	4	✓	6	5	✓	3	3	✓	3	3
Joan Withers	Independent non-executive	✓	8	8	5	5	✓	6	6				✓	3	3

[1] Wayne Boyd retired from the board and committees after the annual meeting on 25 October 2006.

[2] John Maasland was appointed to the board and committees on 3 August 2006 and elected by the board as its chairman on 25 October 2006.

CORPORATE GOVERNANCE continued

Principle 3: Promote ethical and responsible decisionmaking

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 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.
- 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), John Maasland, 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 79.

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.
- The company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

The audit and risk 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 NZSX and ASX 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 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.
- The company's website.

The board has elected to continue with the production of the annual report in its hard copy format even though the law relating to such reporting has been amended. The board considers the annual report to be an essential opportunity for communicating with shareholders.

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.
- 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 committee is delegated responsibility by the board for the oversight of the company's risk management programme. The audit and risk 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. 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), John Maasland 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.
- 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 $660,000 at the company's annual meeting on 25 October 2006.

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 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 froze 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*	$314,589	–
Anthony Frankham**	$128,869	$150,000
John Maasland	$125,479	–
Michael Smith**	$119,251	$105,000
Keith Turner	$86,993	–
Joan Withers	$92,106	$120,000

*Wayne Boyd's remuneration includes the payment of a retirement benefit of $270,000 which had accrued to and was frozen at 23 November 2004.

**Anthony Frankham's remuneration includes ad hoc committee fees of $31,732. Michael Smith's remuneration includes ad hoc committee fees of $30,542. In each case, the ad hoc committee fees relate to the representation of the company in the value-enhancing opportunities being considered by the company.

CORPORATE GOVERNANCE Continued

Management

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

- Base salary and benefits.
- Short-term performance incentives.
- Long-term performance incentives.

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 three 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 successful 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, 2005, and 2006, has two components. One component involves the deemed allocation of shares at prevailing market value at the time of issue. The value of the shares is paid to the executive after three years' qualifying service at market rate prevailing at the 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 run an employee share plan. The last allocation of shares under the employee share plan has now been fully paid for by participating employees. 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 employees currently employed by the company are outlined in the table below.

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	$597,218	$304,968	$902,186	The company has long-term incentives for senior executives (refer note 25 in the financial statements). As at 30 June 2007, the estimated cost of the 2003, 2004, 2005 and 2006 long-term incentive plans was $10.800 million, and this has been provided for in full.
Sinclair, R G	$329,905	$153,010	$482,915	
Gollin, A E A	$322,098	$149,855	$471,953	
Reindler, S	$274,729	$121,461	$396,190	
Gudgeon, C W	$276,956	$100,619	$377,575	

[1] Base salary and benefits include:

- Base salary.
- Company contribution to superannuation arrangements.
- 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.

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.

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 NZSX and ASX Listing Rule requirements.

The company was registered in Australia as a foreign company under the Corporations Law on 22 January 1999 (ARBN 085 819 156).

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 not conducted any on-market buy-back during the year. 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 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 2007.

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.

Auditor

Deloitte have continued to act as auditors of the company, and have undertaken the audit of the financial statements for the 30 June 2007 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 $48,000 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 shares were 7.53 cents in 2007 compared with 8.44 cents in 2006 and 8.65 cents in 2005.

Credit rating

As at 1 August 2007, the Standard & Poor's long-term debt rating for the company was A and the short-term debt rating was A-1.

Subsidiary company directors

Donald Huse and Stephen Reindler held office as directors of Waste Resources Limited as at 30 June 2007.

Annual meeting of shareholders

The company's annual meeting of shareholders will be held at the Ellerslie Event Centre at Ellerslie Race Course, 80-100 Ascot Avenue, Greenlane, Auckland on Tuesday, 20 November 2007 at 10.30 am.

Directors' holdings and disclosure of interests

Directors held interests in the following shares in the company as at 30 June 2007:

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

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:

John Maasland

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, Delegat's Group Limited
Director, NZ School of Music Limited
Director, Waterman Holdings Limited
Director, Woosh Wireless Limited

Anthony Frankham

Chairman, New Zealand Experience Limited
Director, ProCare Health Limited
Member, New Zealand Takeovers Panel (to 31 December 2006)
Consultant To, Grant Thornton Auckland 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

SHAREHOLDER INFORMATION Continued

Keith Turner
Chief Executive, Meridian Energy Limited
Chairman, Arc Innovations Limited
Chairman, DamWatch Pty Limited
Chairman, Power Engineering Centre (University of Canterbury)
Chairman, Power Engineering Excellence Trust (University of Canterbury)
Chairman, Right House Limited
Chairman, WhisperGen Limited
Chairman, WhisperTech Limited
Director, Energy for Industry Limited
Director, MEL Holdings Limited
Director, MEL (Te Apiti) Limited
Director, MEL (West Wind) Limited
Director, MEL (White Hill) Limited
Director, Meridian Limited
Director, Meridian Energy Captive Insurance Limited
Director, Meridian Energy International Limited
Director, Meridian (WhisperTech) Limited
Director, Orion (WhisperTech) Limited
Director, Three River Australia Pty Limited
Director, Three River Holdings (No.1) Limited
Director, Three River Holdings (No.2) Limited
Director, Three River Holdings Pty Limited
Director, Woodville Windfarm Limited

Joan Withers
Chief executive officer, Fairfax New Zealand Limited

Remuneration of employees

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

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, 2005 and 2006 (refer to note 25 in the financial statements); at balance date the value of these incentives was $10.800 million.

Amount of remuneration	Employees
$100,000 to $110,000	6
$110,001 to $120,000	5
$120,001 to $130,000	6
$130,001 to $140,000	2
$140,001 to $150,000	2
$150,001 to $160,000	4
$160,001 to $170,000	7
$170,001 to $180,000	2
$180,001 to $190,000	1
$210,001 to $220,000	1
$230,001 to $240,000	1
$250,001 to $260,000	1
$320,001 to $330,000	1
$370,001 to $380,000	1
$390,001 to $400,000	1
$470,001 to $480,000	1
$480,001 to $490,000	1
$900,001 to $910,000	1

Distribution of ordinary shares and shareholders

As at 1 August 2007

Size of holding	Number of shareholders	%	Number of shares	%
1 – 1,000	3,034	6.01	2,013,859	0.16
1,001 – 5,000	34,508	68.39	71,168,355	5.83
5,001 – 10,000	5,926	11.75	44,329,240	3.63
10,001 – 100,000	6,711	13.30	160,155,450	13.11
100,001 and over	275	0.55	944,023,535	77.27
Total	50,454	100.00	1,221,690,439	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 2007 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
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
UBS Nominees Pty Limited	100,862,758	13.07.07
Commonwealth Bank of Australia and Subsidiaries	89,260,273	07.02.07

The total number of voting securities on issue as at 1 August 2007 was 1,221,690,439.

Twenty Largest Shareholders

As at 1 August 2007

Shareholder	Number of shares	% of capital
New Zealand Central Securities Depository Limited[1]	378,246,435	30.96
Auckland City Council	155,766,240	12.75
Manukau City Investments Limited	116,712,656	9.55
National Nominees Limited	61,039,332	4.99
Citicorp Nominees Pty Limited	17,872,340	1.46
Citicorp Nominees Pty Limited	16,815,823	1.37
Citicorp Nominees Pty Limited	16,770,433	1.37
Custodial Services Limited	15,371,044	1.25
HSBC Custody Nominees (Australia) Limited	15,270,327	1.24
Citicorp Nominees Pty Limited	11,840,966	0.96
Citicorp Nominees Pty Limited	10,922,749	0.89
UBS Nominees Pty Limited	10,131,567	0.82
FNZ Custodians Limited	10,009,920	0.81
J P Morgan Nominees Australia Limited	8,517,901	0.69
Cogent Nominees Pty Limited	5,945,007	0.48
Custodial Services Limited	5,564,170	0.45
Investment Custodial Services Limited	4,341,459	0.35
UBS Wealth Management Australia Nominees Pty Limited	4,194,503	0.34
Private Nominees Limited	4,088,362	0.33
Citicorp Nominees Pty Limited	3,105,925	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 2007, the 10 largest shareholdings in the company held through NZCSD were:

Shareholder	Number of shares
National Nominees New Zealand Limited	88,443,293
HSBC Nominees (NZ) Limited	54,871,156
ANZ Nominees Limited	52,463,739
NZ Superannuation Fund Nominees Limited	37,315,744
HSBC Nominees (New Zealand) Limited	33,211,693
Citibank Nominees (New Zealand) Limited	28,128,751
Accident Compensation Corporation	10,347,331
TEA Custodians Limited	7,992,973
Custody and Investment Nominees Limited	7,736,229
Guardian Trust Investment Nominees (RWT) Limited	7,435,089

INVESTOR INFORMATION

Company publications

The company informs investors of the company's business and operations by issuing an annual report 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	–	November

Please note that the annual meeting will be held on 20 November this year at Ellerslie Event Centre.

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 ASX and the NZX.

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 NZSX 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 2007, 111 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 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 0622

Private Bag 92119
Auckland Mail Centre
Auckland 1142
New Zealand

Telephone: +64 9 488 8700
Facsimile: +64 9 488 8787

Australia

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

GPO Box 7045
Sydney
New South Wales 1115
Australia

Telephone: +61 2 8234 5000
Facsimile: +61 2 8235 5050

CORPORATE DIRECTORY

Directors
John Maasland, chairman
Anthony Frankham
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, general manager people and performance
Lucy Powell, head of communications
Steve Reindler, general manager engineering
Robert Sinclair, chief financial officer
Charles Spillane, general counsel and corporate secretary
Tony Wickstead, chief information officer

Registered office New Zealand
Jean Batten International Terminal
Auckland Airport
Manukau 2022
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

Auditor
Deloitte

Principal bankers
Bank of New Zealand

This annual report is dated 23 August 2007 and is signed on behalf of the board by:

John Maasland
Chairman of the board

Anthony Frankham
Director

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: 12,391m^2

Terminals
Jean Batten International Terminal
10 airbridge stands, 12 remote stands, with additional capacity possible

Domestic Terminal
6 airbridge stands, 14 gate stands, 2 remote stands

Car parks
Over 8,400

Status
Second busiest airport for international passengers in Australasia

Employees
Auckland Airport has approximately 300 staff (over 19,200 people work in the airport area)

Passengers
- Over 70 per cent of all international visitors to New Zealand arrive at and depart from Auckland Airport.
- Nearly 34,000 passengers are processed on average every day.
- Annually there are over 12 million passenger movements.

Aircraft
- 105 international flights and 322 domestic flights are processed every day on average.
- Annually the airport handles 156,000 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)

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.

Airbus A380

The world's largest commercial passenger aircraft, the A380 is expected to start flying into Auckland in 2009. 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 Securities Exchange.

Airways New Zealand

State-owned air traffic management organisation.

Auckland Airport

Auckland International Airport Limited.

Automated border crossing

Auckland Airport 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. This charge will be levied on airlines from 1 July 2008 and travellers will no longer pay the fee at the airport.

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 services 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 are delivered to the airport annually.

Landside

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

Masterplan

The process Auckland Airport 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 airport incinerator with a state-of-the-art steam sterilisation unit.

MAF Biosecurity New Zealand (MAFBNZ)

MAFBNZ 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.

NZSX

New Zealand Securities Exchange.

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 Airport.

The airport

Auckland Airport.

PLEASE RECYCLE ME

ECF ISO NORDIC ENVIRONMENTAL LABEL

This report was printed with vegetable-based, mineral oil-free inks, on stocks that have ISO14001 Environmental Accreditation.

The stocks are Media Satin and Sapphire. The wood comes from sustainable plantations with the Eco-label Indonesia. The stocks are also elemental chlorine free (ECF) and PH neutral, and have been awarded the Nordic Environmental Label.

The paper mill is certified FSC Chain of Custody and has a working relationship with the Sumatran Tiger Organisation.