Haere mai Welcome to New Zealand's Airport

Auckland International Airport Limited

INTERIM REPORT
SIX MONTHS ENDED 31 DECEMBER 2006

The marae at Auckland Airport was blessed at a traditional dawn ceremony on 11 November 2006.

A partnership between the Tainui people and Auckland International Airport Limited, the marae is a tangible symbol of our relationship with the tangata whenua.

Our airport is vital to the whole country. It is where we welcome visitors and farewell friends. It is a city within a city, generating billions of dollars for the economy, creating thousands of jobs, and helping grow New Zealand tourism. It is where New Zealand touches the world. Our airport represents who we are and we're working very hard to ensure every Kiwi can be proud of it. Welcome to New Zealand's airport.

Chairman and CEO's report

Don Huse, chief executive officer and John Maasland, chairman.

Overview

Auckland International Airport Limited (AIAL) continued to deliver solid growth in revenue and earnings before interest, tax and depreciation (EBITDA) in the first half of the 2007 financial year. There was also good progress on upgrading and expanding the airport facilities to meet increasing demand and international service standards.

Total revenue for the six months ended 31 December 2006 was $159.679 million, an increase of 7.0 per cent over the same period last year. Operating costs increased by 4.1 per cent to $33.458 million. EBITDA increased 7.8 per cent to $126.221 million. Surplus after tax increased 0.1 per cent to $51.113 million. This was a pleasing result, given the increased depreciation and interest costs associated with the company's investment programme.

Total passenger volumes for the first six months were 1.6 per cent above the same period last year. This was despite international passenger numbers in the first two months being lower than last year, primarily due to the positive impact of the Lions Tour of New Zealand in July and August 2005.

Following this initial two month period, international passenger volumes resumed positive growth with numbers above the previous year. For the four months from September through to December 2006, the growth in international passengers (excluding transit and transfer passengers) above the same month in the previous year was 3.1 per cent, 0.8 per cent, 2.9 per cent and 3.7 per cent, respectively. There was solid growth from AIAL's core international markets, Australia, the United Kingdom and the United States of America, supplemented by very strong growth from newer markets, such as China and India. Inbound tourism has been supported by buoyant economic conditions in these offshore markets and the slightly lower value of the New Zealand dollar, which began to decline in December 2005 and remained just below levels prevailing the previous year.

The number of international arrivals by New Zealanders increased 1.3 per cent in the first six months. This growth rate was lower than the company's historical average, reflecting the easing in the domestic economy, combined with

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Performance highlights

Total passenger movements **up 1.6 per cent**

6,198,017

International passenger movements (including transits and transfers) **up 1.4 per cent**

3,659,996

Domestic passenger movements **up 1.9 per cent**

2,538,021

Revenue **up 7.0 per cent**

$159.7 million

EBITDA **up 7.8 per cent**

$126.2 million

Surplus after tax **up 0.1 per cent**

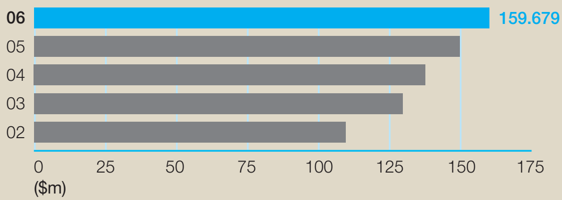
$51.1 million

Interim dividend the **same as last year at 3.75 cents per share**

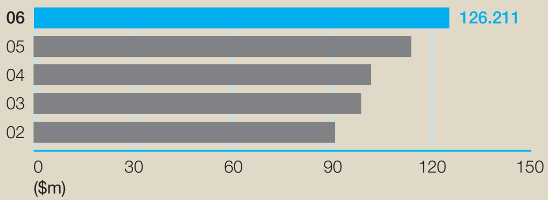
$45.8 million

Five-year summary

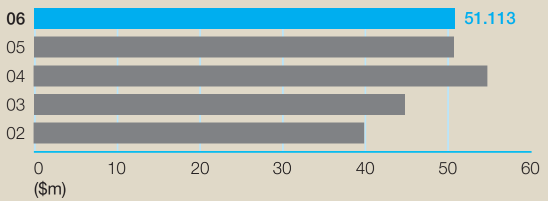
Revenue ($m)



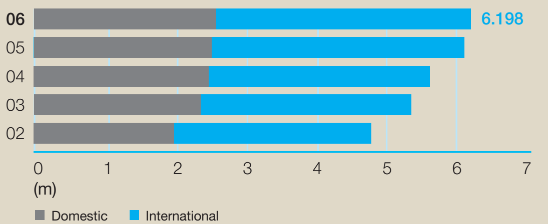
EBITDA ($m)



Surplus after taxation ($m)



Passenger movements (m)



Results at a glance

Six months ended 31 December	**2006 $m**	2005 $m	% change
Financial performance			
Revenue	**159.679**	149.272	+7.0%
Earnings before interest, taxation and depreciation	**126.221**	117.136	+7.8%
Depreciation	**21.088**	16.774	+25.7%
Interest expense	**30.711**	25.184	+21.9%
Surplus before taxation	**74.422**	75.178	-1.0%
Taxation	**23.309**	24.139	-3.4%
Surplus after taxation	**51.113**	51.039	+0.1%
Earnings per share	**4.19c**	4.17c	0.5%
Interim dividend:			
– cents per share	**3.75**	3.75	0.0%
– amount	**45.781**	45.786	-0.0%
Financial position			
Shareholders' equity*	**1,852.369**	452.448	+309.4%
Total assets*	**2,782.097**	1,311.236	+112.2%
Equity ratio*	**66.6%**	34.5%	+93.0%
Debt to enterprise value	**25.0%**	25.5%	-1.9%
Capital expenditure	**51.828**	41.918	+23.6%
Operational performance			
Passenger movements (including transits)	**6,198,017**	6,100,306	+1.6%
Aircraft movements	**79,102**	81,047	-2.4%
Aircraft tonnage	**2,949,949**	2,915,978	+1.2%

* The changes in shareholders' equity, total assets and equity ratio primarily result from the asset revaluation undertaken as at 30 June 2006. See the 2006 Annual Report for details.

the impact on discretionary spending as a result of higher interest rates and fuel prices.

The directors continue to be positive with respect to growth in passenger numbers over the long term. The most recent forecasts from the Ministry of Tourism predict that international passenger arrivals will increase 4.0 per cent per annum to 2012. The forecasts also predict that visitor spending (which positively impacts the company's retail and food and beverage businesses) will increase 6.5 per cent per annum over that period.

The company's major airline customers are undertaking significant aircraft upgrades which will deliver cost efficiencies, service improvements and higher seat capacity. This in turn will stimulate demand. New services and schedules are being pursued. The market remains competitive with reductions in airfares being seen both domestically and internationally. Fuel surcharges are also being reduced. Over the medium term, New Zealand will host a number of major world events, such as the Rugby World Cup in 2011, which will further promote inbound tourism growth. The company is already actively preparing for these major events by ensuring that it has world-leading facilities and service standards.

The company is now in the third year of a four-year major capital expenditure programme. Last year, the company completed the new upper level on the international terminal pier ($47 million), the new hold stow baggage screening facilities ($28 million) and the main runway rehabilitation and widening ($37 million over four years). This year, AIAL is making progress on the next stage of major terminal upgrades. These include the expanded arrivals project in the international terminal ($100 million), the upgrading of the domestic terminal precinct ($42 million, including a $13 million contribution from Air New Zealand) and the first stage of the new Pier B at the international terminal ($50 million).

The domestic terminal "extreme makeover" is programmed for completion in December 2007. The international terminal developments are expected to be completed around the middle of calendar year 2008. Following completion of these developments, the company's aeronautical capital expenditure programme is expected to reduce to levels prevailing prior to the commencement of the four-year programme.

Activity levels

Total passenger movements for the six months to 31 December 2006 were 6,198,017, an increase of 1.6 per cent.

Increased numbers of travellers from the United States, China, Korea, Canada, the Netherlands and India contributed to an overall 0.8 per cent increase in international passenger numbers (excluding transit and transfer passengers). Total international passenger movements (including transits and transfers) increased 1.4 per cent to 3,659,996 (2005: 3,609,714). Note that, from October 2006, the company now receives more detailed and accurate transit and transfer data from Immigration New Zealand. The new data (which has now been compiled back to 1 July 2005) indicates that there was a material number of transit and transfer passengers not captured in the data from the previous source. For the six months to 31 December 2006, there were 493,770 transit and transfer passengers, compared with 154,322 transit and transfer passengers recorded from the previous data source.

During the period, AIAL's home-based carrier, Air New Zealand, redirected a number of its international services with a view to focusing on more profitable routes. This included the commencement of a new Shanghai service (three times a week from early November

2006) and a second daily service to London via Hong Kong (from late October 2006). Services to Singapore ceased in October, with some aircraft being deployed to the newer routes. Furthermore, following the decision not to proceed with the Tasman Network Agreement in November, Air New Zealand announced a decision to reduce the aircraft size of some of its trans-Tasman flights from Auckland.

Increased movements during the period were notable from Pacific Blue (which now incorporates Polynesian Airlines) and Lan Airlines. However, these were offset by reduced movements during the period from Malaysian Airlines, Singapore Airlines and Thai Airways. Garuda Indonesia also ceased services in November 2006.

Overall, international aircraft movements increased 0.2 per cent, from 19,551 to 19,588. International maximum certificated take-off weight (MCTOW) was 2,091,719 tonnes, down marginally from 2,092,506 tonnes last year. The load factors from international airlines operating from Auckland Airport improved slightly when compared with the same period last year.

Domestic passenger activity remained positive during the period, increasing 1.9 per cent, with passenger movements up from 2,490,592 to 2,538,021. Domestic aircraft movements were 59,514 (2005: 61,496), a decrease of 3.2 per cent compared with the previous corresponding period. However, domestic MCTOW increased 4.2 per cent to 858,230 tonnes (2005: 823,472 tonnes). This was primarily due to the Air New Zealand group flying larger aircraft types on domestic routes.

Passenger mix

International arrivals at Auckland Airport (by country of last permanent residence) for the period totalled 1,614,482, a 2.2 per cent increase over the 1,579,969 arrivals in the previous corresponding period.

With the value of the New Zealand dollar over the six months to 31 December 2006 slightly lower than the levels prevailing over the previous 18 months, and the strength of the economies in New Zealand's major tourism markets, AIAL has begun to see a welcome resurgence in growth of international arrivals. In addition, despite the slightly lower New Zealand dollar and the impact of higher interest rates, international travel by New Zealanders was nevertheless above the level in the previous corresponding period. New Zealand travellers represented 45.8 per cent (2005: 46.2 per cent) of all arrivals, with arrivals from Australia comprising 16.3 per cent (2005: 16.4 per cent). The Australasian market represented 62.1 per cent of total arrivals, down slightly from 62.6 per cent last year.

While the Australasian market provides the company with a solid and stable foundation of passenger traffic, there is very strong growth from newer markets. The most significant increases during the period were travellers from India, up 17.1 per cent, Canada, up 13.1 per cent, and China, up 12.8 per cent. China is now the company's fifth largest market. Arrivals from Japan declined 14.9 per cent, reflecting a reduction in services by Air New Zealand to Japan and the popularity of other travel destinations in the Asian region.

January 2007 passenger volumes

For the month of January 2007, international passengers (excluding transits and transfers) were 2.3 per cent above the same month in the previous year. Total international passengers (including transits and transfers) increased by 2.7 per cent. Domestic passengers increased 2.0 per cent for the month of January.

The major contributors to arrivals during the period were:

Passengers arriving at Auckland Airport (by country of last permanent residence)

6 months ended 31 December	2006	2005	% change	% Total
New Zealand	739,663	729,872	+1.3	45.8
Australia	263,830	258,772	+2.0	16.3
United Kingdom (incl. Ireland)	118,745	117,352	+1.2	7.4
United States of America	86,456	81,495	+6.1	5.4
China (incl. Hong Kong)	64,729	57,393	+12.8	4.0
Japan	45,032	52,944	-14.9	2.8
Korea, Republic of	43,519	41,475	+4.9	2.7
Germany	22,597	22,169	+1.9	1.4
Canada	18,203	16,090	+13.1	1.1
Netherlands	12,287	10,956	+12.1	0.8
India	9,038	7,718	+17.1	0.6
Other	190,383	183,733	+3.6	11.8
Total	**1,614,482**	**1,579,969**	**+2.2**	**100.0**

Source: Statistics New Zealand

Financial results

Revenue for the six months increased $10.407 million or 7.0 per cent to $159.679 million, as follows:

Revenue

6 months ended 31 December	2006 $m	2005 $m	% change
Aeronautical revenue			
Airfield	34.094	33.703	+1.2
Development charge	31.179	27.796	+12.2
Terminal services charge	11.254	8.704	+29.3
	76.527	70.203	+9.0
Non-aeronautical revenue			
Retail	46.203	42.679	+8.3
Property rentals	15.936	15.432	+3.3
Car parks	12.941	12.924	+0.1
Interest	0.589	0.130	+353.1
Utilities and general	7.032	7.549	-6.8
Associated companies	0.451	0.355	+27.0
	83.152	79.069	+5.2
Total revenue	**159.679**	**149.272**	**+7.0**

Aeronautical revenue

Aeronautical revenue represented 47.9 per cent (2005: 47.0 per cent) of total revenue.

The 1.2 per cent increase in airfield income has resulted from a 4.2 per cent increase in domestic MCTOW, with international MCTOW remaining consistent with the same period last year.

Income from the airport development charge (ADC), payable by departing international passengers (12 years of age and over), increased in line with the overall increase in international passenger activity and the retention, from 1 October 2005, of the $5.00 (GST inclusive) which was previously paid to the government. This retention was in recognition of the company's major international terminal investment programme.

Terminal services charges increased 29.3 per cent, reflecting the recovery of increased terminal space, in particular the new upper level on the international terminal pier and the hold stow baggage screening facilities, along with increased operating costs during the period.

Non-aeronautical revenue

Non-aeronautical revenue represented 52.1 per cent (2005: 53.0 per cent) of total revenue.

Retail income increased 8.3 per cent to $46.203 million. Following completion of the new upper level on the international terminal pier, and the opening of the new duty free and specialty stores, retail trading has seen a marked improvement over previous periods. Retail income per international passenger increased

6.8 per cent to $12.62 in the first six months of the 2007 financial year, compared with $11.82 for the same period in the previous financial year. (Note that the retail income per international passenger metrics above are based on total international passengers, including, in both cases, the new transit and transfer passenger data.) This comes on top of the 7.9 per cent growth in retail income per international passenger, achieved in the second half of the 2006 financial year, compared with the same period in the previous year.

This turnaround has been due to a number of reasons. In particular, the opening of new retail stores and food and beverage outlets in the international terminal, increased demand for car rental services, the removal of the disruption and congestion caused by the construction activity in the previous year, and the slightly lower value of the New Zealand dollar (which makes product at Auckland Airport more competitive when compared with offshore airports).

There has also been solid growth in duty free sales. In addition, the new destination product and advertising (indoor and outdoor media) concessions have performed strongly.

Furthermore, the new retail precinct at the domestic terminal opened on 16 December 2006. This new facility is conveniently located between the Air New Zealand and Qantas check-in areas, and has access from the multi-level car park by a walkway over the road. The precinct added an additional 2,200 square metres of retail and food and beverage space. 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 Noodles, McDonald's, Take Off Espresso, the River Café, Bach Café, Ranges bar and café and Espresso Plus. A new Tank Juice Bar has recently opened.

AIAL also is progressing the tender for foreign exchange and banking services at Auckland Airport from October 2007, along with a longer-term redevelopment of the international terminal departures retail and food and beverage precinct.

Car park income for the first six months was $12.941 million, 0.1 per cent higher than the same period last year. Growth in car parking income slowed in the first six months due to the level of parking activity at the international terminal, which has been impacted by the lower growth in New Zealand travellers, the impact of high fuel prices and passengers taking other forms of transport to the airport.

Car parking at the domestic terminal has performed well. The company completed the construction of a new multi-level car parking facility in the domestic precinct in July. It is conveniently located close to the Air New Zealand and Qantas domestic terminals and provides covered access to both. This provided an additional 850 spaces and increases the premium under-cover parking alternatives at the domestic terminal. This new facility has traded well since opening, with the business parking area on Level 1 being fully utilised once or twice each week. The company has also added another 474 spaces for long-term parking at the international terminal.

In September 2006, the company engaged Wilson Parking, which operates car parks throughout New Zealand and Australia, to assist in the further development of Auckland Airport's parking services. While Wilson Parking manages and operates the car parks, AIAL will retain full control of service levels, branding across the airport and, importantly, tariffs. The company also completed the outsourcing of its forecourt management services in December 2006.

Rental income from the company's investment property portfolio and office space within the terminal buildings increased 3.3 per cent to $15.936 million. The increase was due to the commencement of a number of new leases and market-related rent reviews.

During the period, the company made strong progress in its investment property business. Two developments were completed and several others will be completed prior to the end of the financial year. The completed projects include the construction of office and warehouse premises for New Zealand Van Lines ($7.8 million) and Fliway Logistics ($5.0 million). Prior to the end of the 2007 financial year, the company expects to complete an office and warehouse development for Expeditors International ($6.0 million), a new childcare centre for Lollipops Educare ($1.2 million) and an extension and refurbishment of Air New Zealand's cargo and freight facilities ($3.0 million).

AIAL has also recently confirmed a new office and warehouse extension for FedEx ($1.8 million) and a refurbishment of Air New Zealand's ramp offices in the international terminal pier. These developments are expected to be completed after 30 June 2007. In addition to these developments, a number of other commercial property opportunities continue to be pursued. To provide for current projects and new opportunities, the company has commenced developing further land for commercial properties near its northern boundary. Management is confident of finalising several new developments before the end of the current financial year.

Income from associated companies for the period is attributable to the HMSC-AIAL Limited joint venture.

Operating expenses

Total operating expenses were $33.458 million, an increase of 4.1 per cent over last year's $32.136 million. Details are as follows:

Operating expenses

Six months ended 31 December	2006 $m	2005 $m	% change
Staff costs	13.156	12.573	+4.6
Repairs and maintenance	10.297	9.774	+5.4
Rates and insurance	3.166	2.779	+13.9
Other	6.839	7.010	-2.4
Total operating expenses	**33.458**	**32.136**	**+4.1**

Increased staff costs primarily reflect an increase in salaries and wages resulting from the effects of a tight employment market, especially in certain skill areas, and certain recruitment costs. Operating staff numbers were 301 as at 31 December 2006, compared with 298 in the previous year. The increase was primarily in non-permanent roles in customer services, operations, engineering and retail in order to assist the airport development activities and passenger facilitation over the busy summer period.

The increase in repairs and maintenance costs was primarily due to an increase in baggage handling management fees, utilities costs and cleaning costs. There was also an increase in plant and infrastructure repairs and maintenance.

Rates and insurance increased 13.9 per cent, primarily as a result of increased property rates.

EBITDA increased 7.8 per cent from $117.136 million to $126.221 million. This represents an operating or EBITDA margin of 79.0 per cent, which increased marginally from 78.5 per cent for the same period in the last financial year.

Depreciation charges amounted to $21.088 million (2005: $16.774 million). The increase in depreciation primarily resulted from the completion of a number of major projects, including the new level on the international terminal pier, the hold stow baggage screening facility and runway rehabilitation and widening.

Earnings before interest and taxation (EBIT) increased 4.8 per cent from $100.362 million to

$105.133 million. The EBIT margin decreased from 67.2 per cent to 65.8 per cent.

Interest costs increased from $25.184 million to $30.711 million, reflecting a higher level of borrowing resulting from the ongoing investment programme, combined with higher interest rates prevailing in the first six months of this year. Interest costs also increased due to the 12 cents per share special dividend paid to shareholders on 5 August 2005 (total $146.7 million) and the on-market share buy-back. Interest costs, amounting to $1.363 million, were capitalised to major projects during the period ($2.033 million).

Taxation expense totalled $23.309 million (2005: $24.139 million), representing an effective tax rate of 31.3 per cent.

The $51.113 million surplus after tax equates to earnings per share of 4.19 cents (2005: 4.17 cents). The financial results have been reviewed by the company's auditors, Deloitte.

Financial position

AIAL's financial position remains strong, with an investment grade credit rating. Total assets at 31 December 2006 amounted to $2,782.097 million, compared with $2,757.861 million at 30 June 2006. Capital expenditure during the period totalled $51.828 million, principally reflecting work on the expanded arrivals project, the domestic terminal retail precinct, the domestic terminal regional upgrade and property developments. It is anticipated that capital expenditure for the full year will be in the order of $110 million to $115 million.

Shareholders' equity decreased marginally to $1,852.369 million ($1,855.102 million as at 30 June 2006).

Total borrowings as at 31 December 2006 increased to $890.409 million ($860.617 million as at 30 June 2006), principally reflecting the financing of the current capital expenditure programme. Borrowings comprised bonds of $475.809 million, commercial paper of $205.000 million and bank facility borrowings of $190.000 million. Gearing (measured as debt to debt plus shareholders' equity) was 32.5 per cent (31.7 per cent as at 30 June 2006). Based on the market value of the company's equity as at 31 December 2006, the gearing was 25.0 per cent of enterprise value (24.5 per cent as at 30 June 2006). As at 31 December 2006, the company had $260.000 million of committed but undrawn funding lines available to it.

Credit rating

On 9 October 2006, the international credit rating agency, Standard & Poor's, reaffirmed the company's A/Stable/A-1 corporate credit rating.

Dividends

The directors have announced an interim dividend of 3.75 cents per share, consistent with the interim dividend paid out last year. The interim dividend amounts to $45.781 million or 89.6 per cent of the surplus after taxation. The company's dividend policy is to pay out 90 per cent of surplus after tax. However, the directors will consider paying future ordinary dividends above this level, subject to the cash flow requirements and outlook at the time, and the availability of imputation credits.

The 3.75 cents per share interim dividend will be fully imputed and will be paid on 30 March 2007. For the purposes of calculating dividend entitlements, the share register will close at 5.00 pm on Friday, 16 March 2007 and reopen on Monday, 19 March 2007.

A supplementary dividend, sourced from corresponding taxation credits, will be paid to qualifying non-resident shareholders.

Share capital

The number of shares issued increased during the period to 1,220,826,439 shares as a result of

316,800 shares issued under the executive share option plan. The total number of shareholders is approximately 52,000, with the substantial holders being:

Auckland City Council	155.8 million	12.82%
UBS Nominees Pty Limited	134.9 million	11.05%
Manukau City Investments Limited	116.7 million	9.55%
Commonwealth Bank Group	89.3 million	7.31%

Aeronautical pricing

The company is consulting with its major airline customers regarding aeronautical prices that will apply from 1 September 2007. The company submitted a detailed pricing proposal to its airline customers in July 2006. A comprehensive response to that proposal was received from the Board of Airline Representatives New Zealand Inc ("BARNZ") in November. Separate responses have also been received from Air New Zealand, Qantas and Pacific Blue.

The company is now working through these responses in detail and considering in good faith the issues that have been raised. Submission of a revised proposal to the airlines is expected to be made shortly. Details are expected to be announced in the middle of this calendar year.

The company's overriding objective is to reach a commercial and amicable agreement with the airlines with respect to aeronautical charges, reflecting the interests of both parties and our joint responsibilities to the travelling public and New Zealand's tourism industry.

Major projects

Domestic terminal upgrade

The company is currently undertaking a comprehensive upgrade and expansion of Auckland Airport's domestic terminal precinct. It will provide modern and convenient facilities for travellers. The upgrade includes:

- The new forecourts and roading layout, completed last year.
- An 850-space multi-level car parking facility completed in July 2006 with a walkway over the road directly into the new domestic terminal precinct, opened in September 2006.
- The new facilities for regional services, including a new check-in area, separate baggage claim facilities and a new café, completed in December 2006.
- A 2,200 square metre retail and food and beverage facility with new retail outlets, fast food, fresh sushi, a bar, cafés and a juice bar, completed in December 2006.
- An extensive renovation of the Air New Zealand terminal, which is being undertaken in conjunction with Air New Zealand and is the final stage of the project. This is expected to be completed in December 2007.

International terminal expanded arrivals

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

International terminal Pier B

Development of a new pier (Pier B) at the international terminal is proceeding. This will connect to the new expanded arrivals development and provide two contact gates (each with two airbridges) to the existing Pier B hardstands. The Pier B airbridges will be capable of providing access to the upper and lower decks of the new Airbus

380 aircraft, as well as accommodating Boeing 747 and smaller aircraft. The anticipated cost is $50 million. Completion is planned for September 2008, in time for the expected arrival of A380s from Emirates. Financial returns from this development will come from aeronautical charges.

Northern runway

The first stage of engineering work for the northern runway has started. The first stage of the runway is expected to be operational in late 2010 or early 2011. It will be 1,200 metres in length. This will accommodate general aviation and smaller, local airline operators, freeing up capacity on the existing main southern runway.

Category III operations

The company is working with Airways New Zealand (air traffic control) and the airlines to install additional equipment that will permit aircraft to land 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 anticipated to be fully operational in May 2008.

Safety and security

The company is working closely with the Ministry of Transport, the New Zealand Aviation Security Service and the other government border agencies on the introduction of new security and screening requirements which prohibit passengers from taking certain quantities of liquids, gels and other similar substances through departure security screening and on to aircraft. These new requirements will take effect from 31 March 2007. The company is committed to ensuring the safety and security of passengers at Auckland Airport. We are working co-operatively with the government agencies and airlines to minimise the impact on passenger facilitation and experience. As a consequence, the company expects that any impact the introduction of these measures may have on its retail operations will be minimised.

Sustainability and the environment

The company is committed to working towards higher levels of sustainability in its own operations and throughout the wider airport community. Details of the company's approach to sustainability and environmental policies are set out in the 2006 annual report. The company is increasing its already strong focus on the importance of sustainability, the impacts of climate change and the potential implications for the broader aviation industry of carbon emissions and carbon taxes. A project team has been established to consider further initiatives in this regard. A more extensive approach to sustainability reporting will be provided in the company's 2007 annual report.

Airport marae

A new marae at Auckland Airport, known as "Te Manukanuka o Hoturoa", was blessed at a traditional dawn ceremony on Saturday, 11 November 2006. The marae had its formal beginnings on 18 March 2003 when the Maori Queen, the late Te Arikinui Dame Te Atairangikaahu ONZ, DBE, and Bob Rawiri, chairman of Nga Marae Toopu (Tainui Marae), signed a Memorandum of Understanding with AIAL. The ceremony was attended by the Maori King, Te Arikinui Tuheitia, the son of the late Maori Queen, and Nanaia Mahuta, Minister of Customs.

Locating the marae at an airport, which is a first in New Zealand, is intended to create a unique cultural and educational setting for the airport and the wider communities. The aim is to create a special airport experience that delivers on the "New Zealand story" and represents New Zealand's many cultures. The marae kawa (protocol) is Tainui and it will be available for use by people of all ethnic groups.

HMSC-AIAL Limited (50 per cent owned)

This joint venture with HMSHost Corporation operates food and beverage facilities at the international terminal building. AIAL's 50 per cent share of the joint venture's profit amounted to $0.451 million compared with $0.355 million in the previous year.

The new facilities in the upper level of the international pier have more than doubled the outlet space previously provided and now offer travellers a new bar, fast food and espresso coffee offerings.

People and performance

The company is continuing to enhance its human resources processes and policies to achieve high performance outcomes for AIAL. This includes a review of AIAL's internal policies, the development of a people capability framework to provide a clear set of behaviours and abilities necessary to sustain business growth, and a review of the company's incentive-related remuneration policy and process.

Information technology and telecommunications

Information technology and telecommunications has continued to progress a number of key projects with a focus on the timely delivery of information and systems that contribute to operational efficiency. These include adding further modules to the company's JD Edwards Enterprise Resource Planning computer system, continuing the implementation of a management information system and planning for new telecommunications and fibre-optic networks and the upgrading of the company's operations centre. The company has also introduced wi-fi "hot spots" in the international and domestic terminals, providing the travelling public with easy access to the internet.

Annual shareholders' meeting

It is proposed that the 2007 annual meeting will be held on 25 October this year.

Outlook

The company has completed another successful first half. Revenue, EBITDA and surplus after tax have continued to grow. A number of important expansion projects have been progressed.

Planning for the future of Auckland Airport continues and management remains focused on improving airport facilities and services, enhancing the passenger experience and delivering on our commitment to the tourism industry in New Zealand.

While there are some early signs of an improvement in the rate of passenger growth, particularly in international visitor arrivals, it can be expected that growth will remain below the company's long-term average of around 5 per cent for the balance of this financial year.

The directors remain confident in the long-term sustainable growth prospects of the business. In the short term, however, the current passenger volumes, together with the impact of the current investment programme on depreciation and interest costs, will influence the financial results for the current period. Reflecting these circumstances, the directors remain of the view that the surplus after-tax result for the full year will be similar to the previous year. However, the company has made strong progress towards completing the current airfield and terminal investment programme. It is anticipated that this programme will substantially reduce by the end of the next financial year. This sets the stage for much improved earnings growth from the end of the next financial year. Furthermore, as always, any forward-looking statements must necessarily be contingent upon traffic volumes trending in line with current expectations, as well as the absence of any major adverse event impacting on air travel.

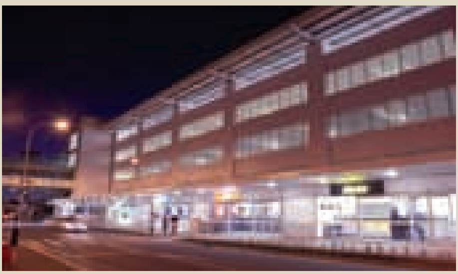
John Maasland
Chairman
22 February 2007

Don Huse
Chief executive officer
22 February 2007

Refreshing travellers

Auckland Airport boasts a range of new food and beverage options for travellers and visitors. In time for the busy summer travelling season, a food court was opened at the domestic terminal in December 2006. It includes the Take Off Espresso, Hayama Sushi and Noodles, McDonald's, Ranges bar and café and the recently opened Tank juice bar. Travellers visiting regional locations can also enjoy convenient café dining at The River Café, located in the regional airline area of the terminal. These developments are part of the airport's comprehensive growth investment programme which focuses on enhancing the overall passenger experience. The domestic food and beverage developments complement the range of options at the international terminal.

Domestic bliss



With the company's masterplan confirming that it will be after 2015 that a new domestic terminal is needed, a number of improvements to the existing terminal have already been opened. The next stage of this "extreme makeover" is currently under way – the renovation of the Air New Zealand check-in area. With the new regional airline and foodcourt areas open, Auckland Airport is working to ensure that the domestic travel experience is as stress-free and enjoyable as possible.

Stress release

Auckland Airport is focused on a range of developments and service improvements which all positively contribute to the overall passenger experience. Projects include the dedicated baggage carousel at the domestic terminal for regional travellers and new covered coach parking facilities at the international terminal. The opening of the multi-level car park in the domestic precinct has allowed for under-cover access to the terminal and rental car offices being located next to their vehicles. The expanded arrivals project will help to reduce congestion at peak times, with significantly enhanced MAF and Customs areas. International travellers are now given boarding time countdowns so they are constantly aware of when they need to go to their gate – giving them control over how they spend their time prior to boarding.

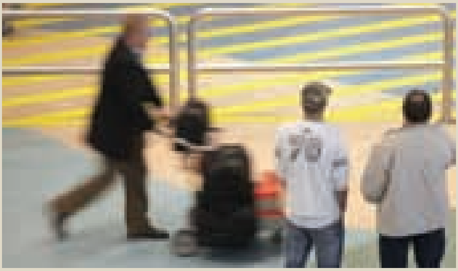
Retail therapy

Shopping is an integral part of the Auckland Airport experience, and is a key revenue driver for the company. The domestic terminal redevelopment includes new retail outlets The Sunglass Hut and New Zealand and Beyond (a destination product store), along with a new store for Whitcoulls. The Guess brand and Chocovino, selling confectionary and wine, are recent additions in the international terminal.

Thinking local

As a “citizen” of Manukau and Auckland cities, Auckland Airport participates in a number of community initiatives. In addition to environmental mitigation activities, such as managing the impacts of aircraft noise, the company also provides sponsorships that benefit a range of stakeholders. The airport marae is one such initiative. The company is the main supporter of the Life Education Trust in the airport’s surrounding community and sponsors the rehabilitation areas for the National Burn Centre at Middlemore Hospital. The concept of an airport community or “a city within a city” is confirmed by the fact that over 10,000 people work at Auckland Airport. Developments such as the purpose-built Lollipops Educare childcare centre help to serve this diverse community. A company mentoring programme operates with Aorere College. Students from Aorere College and universities are employed in the terminals to help assist passengers during the busy summer period.

On schedule



Improved passenger processing and higher service standards will be the result of the upgraded and expanded facilities being developed by Auckland Airport. This strategic investment programme is designed to ensure that, as the country's main international gateway, we can continue to promote the anticipated strong growth in tourism. It will enable us to deliver high quality facilities and services for travellers and our airline customers. We also intend to be well prepared to welcome the tens of thousands of people who will visit our country for the Rugby World Cup in 2011. AIAL is midway through the penultimate year of a four-year, $500 million capital expenditure programme. Several major projects currently under way include terminal upgrades (for the domestic and international terminals) and expansion and initial engineering work for the first stage of the new northern runway.

Financial statements

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Financial information

Corporate information

Statement of financial performance

FOR THE 6 MONTHS ENDED 31 DECEMBER 2006

	Notes	**6 months 31 Dec 2006 $000**	6 months 31 Dec 2005 $000	12 months 30 Jun 2006 $000
Operating revenue				
Airfield income		**34,094**	33,703	67,351
Development charge		**31,179**	27,796	60,405
Terminal services charge		**11,254**	8,704	17,274
Retail income		**46,203**	42,679	86,712
Rental income		**15,936**	15,432	31,502
Rates recoveries		**1,377**	1,147	2,285
Car park income		**12,941**	12,924	24,847
Interest income		**589**	130	517
Other		**6,106**	6,757	14,921
Total revenue		**159,679**	149,272	305,814
Expenses				
Staff		**13,156**	12,573	25,950
Repairs and maintenance		**10,297**	9,774	20,500
Rates and insurance		**3,166**	2,779	5,793
Other		**6,839**	7,010	13,410
Total operating expenses		**33,458**	32,136	65,653
Earnings before interest, taxation and depreciation (EBITDA)		**126,221**	117,136	240,161
Depreciation expense		**21,088**	16,774	38,546
Earnings before interest and taxation (EBIT)		**105,133**	100,362	201,615
Interest expense		**30,711**	25,184	54,911
Surplus before taxation		**74,422**	75,178	146,704
Taxation expense		**23,309**	24,139	43,549
Surplus after taxation	2	**51,113**	51,039	103,155

These financial statements have not been audited. They have been the subject of review by the auditors pursuant to NZICA Review Engagement Standards RS-1. The accompanying notes form part of these financial statements.

Statement of movements in equity

FOR THE 6 MONTHS ENDED 31 DECEMBER 2006

	Notes	6 months 31 Dec 2006 $000	6 months 31 Dec 2005 $000	12 months 30 Jun 2006 $000
Total recognised revenues and expenses				
Net surplus for the year		**51,113**	51,039	103,155
Increase in value of property, plant and equipment		**–**	–	1,385,718
Increase in value of investment properties		**–**	–	13,615
		51,113	51,039	1,502,488
Contribution from owners				
Increase in share capital	3	**476**	3,008	3,485
		476	3,008	3,485
Distributions to owners				
Ordinary dividends paid		**(54,322)**	(54,442)	(100,228)
Buy-back of shares		**–**	(4,706)	(8,192)
		(54,322)	(59,148)	(108,420)
Movements in equity for the period		**(2,733)**	(5,101)	1,397,553
Equity at the beginning of the period		**1,855,102**	457,549	457,549
Equity at the end of the period		**1,852,369**	452,448	1,855,102

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Statement of financial position

AS AT 31 DECEMBER 2006

	Notes	As at 31 Dec 2006 $000	As at 31 Dec 2005 $000	As at 30 Jun 2006 $000
Non-current assets				
Property, plant and equipment	4	**2,552,656**	1,106,813	2,533,430
Investment properties		**204,720**	176,647	193,502
Investment in associated company		**3,439**	3,155	2,988
Other non-current assets		**775**	1,075	1,075
		2,761,590	1,287,690	2,730,995
Current assets				
Bank		**396**	2,362	324
Inventories		**133**	119	100
Prepayments		**4,481**	4,959	3,616
Accounts receivable		**13,286**	15,761	11,935
Taxation receivable		**2,211**	345	10,891
		20,507	23,546	26,866
Total assets		**2,782,097**	1,311,236	2,757,861
Shareholders' equity				
Issued and paid-up capital	3	**167,386**	166,655	166,910
Cancelled share reserve		**(161,304)**	(158,040)	(161,304)
Retained earnings		**(28,596)**	(31,717)	(25,387)
Property, plant and equipment revaluation reserve		**1,808,241**	422,523	1,808,241
Investment property revaluation reserve		**66,642**	53,027	66,642
		1,852,369	452,448	1,855,102
Non-current liabilities				
Term borrowings	5	**490,425**	550,809	600,809
Other term liabilities		**446**	1,101	958
		490,871	551,910	601,767
Current liabilities				
Accounts payable		**34,822**	31,270	38,290
Short-term borrowings	5	**399,984**	275,608	259,808
Provision for noise mitigation		**4,051**	–	2,894
		438,857	306,878	300,992
Total equity and liabilities		**2,782,097**	1,311,236	2,757,861

These financial statements have not been audited. They have been the subject of review by the auditors pursuant to NZICA Review Engagement Standards RS-1. The accompanying notes form part of these financial statements.

Statement of cash flows

FOR THE 6 MONTHS ENDED 31 DECEMBER 2006

	Notes	**6 months 31 Dec 2006 $000**	6 months 31 Dec 2005 $000	12 months 30 Jun 2006 $000
Cash flow from operating activities				
Cash was provided from:				
Receipts from customers		**157,906**	143,482	300,580
Interest received		**589**	129	517
Dividends from associated companies		**–**	–	500
		158,495	143,611	301,597
Cash was applied to:				
Payments to suppliers and employees		**(34,185)**	(29,567)	(60,727)
Income tax paid		**(14,629)**	(21,427)	(51,383)
Other taxes paid		**(140)**	(169)	(496)
Interest paid		**(31,009)**	(22,948)	(51,596)
		(79,963)	(74,111)	(164,202)
Net cash flow from operating activities	2	**78,532**	69,500	137,395
Cash flow from investing activities				
Cash was provided from:				
Proceeds from sale of assets		**120**	44	2,983
Other investing activities		**500**	–	–
		620	44	2,983
Cash was applied to:				
Purchase of property, plant and equipment		**(42,246)**	(46,770)	(101,026)
Expenditure on investment properties		**(11,218)**	(1,152)	(4,448)
Interest paid – capitalised		**(1,363)**	(2,033)	(2,758)
Other investing activities		**(200)**	(1,075)	(1,075)
		(55,027)	(51,030)	(109,307)
Net cash applied to investing activities		**(54,407)**	(50,986)	(106,324)
Cash flow from financing activities				
Cash was provided from:				
Increase in share capital		**476**	3,008	3,485
Increase in borrowings		**948,900**	1,074,350	1,833,050
		949,376	1,077,358	1,836,535
Cash was applied to:				
Decrease in borrowings		**(919,107)**	(888,150)	(1,612,650)
Buy-back of shares		**–**	(4,706)	(8,192)
Dividends paid		**(54,322)**	(201,164)	(246,950)
		(973,429)	(1,094,020)	(1,867,792)
Net cash flow applied to financing activities		**(24,053)**	(16,662)	(31,257)
Net increase/(decrease) in cash held		**72**	1,852	(186)
Opening cash brought forward		**324**	510	510
Ending cash carried forward		**396**	2,362	324

These financial statements have not been audited. They have been the subject of review by the auditors pursuant to NZICA Review Engagement Standards RS-1. The accompanying notes form part of these financial statements.

Abridged notes to the financial statements

FOR THE 6 MONTHS ENDED 31 DECEMBER 2006

1. Statement of accounting policies

These consolidated interim financial statements are presented in accordance with Financial Reporting Standard 24 "Interim Financial Statements" issued by the New Zealand Institute of Chartered Accountants. The interim financial statements should be read in conjunction with the group's annual financial report for the year ended 30 June 2006.

All accounting policies have been applied on a consistent basis with those used in the audited financial statements for the year ended 30 June 2006 and the unaudited financial statements for the six months ended 31 December 2005. Where applicable, certain comparatives have been restated to comply with the accounting presentation adopted for the current period.

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

	6 months 31 Dec 2006 $000	6 months 31 Dec 2005 $000	12 months 30 Jun 2006 $000
Surplus after taxation	**51,113**	51,039	103,155
Non-cash items:			
Depreciation	**21,088**	16,774	38,546
Bad and doubtful debts	**50**	86	83
Equity accounted earnings from associates	**(451)**	(355)	(188)
Items not classified as operating activities:			
(Gain)/loss on asset disposals	**207**	579	(497)
(Increase)/decrease in property, plant and equipment retentions and payables	**2,967**	7,931	(1,566)
Increase/(decrease) in employee share purchase loan	**(52)**	(75)	(130)
Movement in working capital:			
(Increase)/decrease in current assets	**(2,299)**	(6,107)	(992)
(Increase)/decrease in taxation receivable	**8,680**	2,712	(7,834)
Increase/(decrease) in accounts payable	**(2,259)**	(3,088)	6,957
Increase/(decrease) in other term liabilities	**(512)**	4	(139)
Net cash flow from operating activities	**78,532**	69,500	137,395

3. Issued and paid-up capital

Issued and paid-up capital at the beginning of the period	**166,910**	163,940	163,940
Options exercised during the period	**476**	3,008	3,485
Cancellation of buy-back shares	**–**	(293)	(515)
Total issued and paid-up capital	**167,386**	166,655	166,910

The number of issued and paid up shares is 1,220,826,439 (2005: 1,222,026,158). All shares rank equally.

Options have been exercised pursuant to the Executive Share Option Plan. Details of these options are disclosed in the group's annual financial report for the year ended 30 June 2006.

These financial statements have not been audited. They have been the subject of review by the auditors pursuant to NZICA Review Engagement Standards RS-1.

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.

4. Property, plant and equipment

	As at 31 Dec 2006 $000	As at 31 Dec 2005 $000	As at 30 Jun 2006 $000
Land			
At valuation	**1,645,040**	461,796	1,645,040
At cost	**–**	1,032	–
Reclassification to investment properties	**(443)**	(4,904)	–
Work in progress at cost	**566**	196	579
	1,645,163	458,120	1,645,619
Buildings and services			
At valuation	**409,892**	284,163	409,892
At cost	**11,551**	80,088	–
Work in progress at cost	**38,025**	29,825	15,500
Accumulated depreciation	**(10,211)**	(61,113)	–
	449,257	332,963	425,392
Infrastructure			
At valuation	**190,264**	117,139	190,264
At cost	**4,131**	24,405	–
Work in progress at cost	**2,992**	2,338	5,478
Accumulated depreciation	**(3,617)**	(20,416)	–
	193,770	123,466	195,742
Runway, taxiways and aprons			
At valuation	**251,961**	115,741	251,961
At cost	**205**	80,520	–
Work in progress at cost	**5,475**	2,674	2,894
Accumulated depreciation	**(5,229)**	(16,432)	–
	252,412	182,503	254,855
Vehicles, plant and equipment			
At cost	**40,624**	33,842	39,567
Work in progress at cost	**1,878**	1,308	671
Accumulated depreciation	**(30,448)**	(25,389)	(28,416)
	12,054	9,761	11,822
Total property, plant and equipment	**2,552,656**	1,106,813	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.

Investment properties are revalued to net current value annually as at 30 June.

Additions for six months ending 31 December 2006 include capitalised interest of $1.363 million (2005: $2.033 million).

5. Borrowings

At balance date the following borrowing facilities were in place:

	Coupon	As at 31 Dec 2006 $000	As at 31 Dec 2005 $000	As at 30 Jun 2006 $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
Bonds maturing 15 November 2008	6.64%	38,270	38,270	38,270
Bonds maturing 29 July 2009	6.67%	66,900	66,900	66,900
Bonds maturing 29 July 2009	Floating	8,100	8,100	8,100
Bonds maturing 29 July 2011	6.83%	70,000	70,000	70,000
Bonds maturing 29 July 2011	Floating	5,000	5,000	5,000
Bonds maturing 7 November 2012	7.19%	50,000	50,000	50,000
Bonds maturing 7 November 2015	7.25%	100,000	100,000	100,000
Bank facility	Floating	115,000	75,000	125,000
Term borrowings		490,425	550,809	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	–	–
Bonds maturing 16 July 2007	6.53%	15,080	–	–
Bonds maturing 16 July 2007	Floating	59,000	–	–
Commercial paper maturing within 3 months	Floating	205,000	200,000	180,000
Bridge facility	Floating	75,000	–	–
Money market	Floating	19,600	–	4,200
Short-term borrowings		399,984	275,608	259,808
Total borrowings		890,409	826,417	860,617

The company utilises term bonds, a bank facility and commercial paper to provide its ongoing debt requirements. It routinely rolls over debt 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 is now unlimited. Previously the facility was capped at $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 the Bank of New Zealand.

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In November 2005, the company issued $150 million of fixed rate bonds for seven and ten years to institutional and retail investors in New Zealand.

In December 2005, the company established a $275 million, five year bank facility with the 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 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 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 either a negative pledge deed or a master trust deed.

6. Contingencies and capital commitments

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 31 December 2006, the company had received acceptances from the owners of five 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. Consistent with established airport economic principles, the company is consulting with airlines over the means of recovering these costs in a fair and equitable way for all concerned.

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 at 31 December 2006 (2005: Nil).

Capital commitments entered into but not accrued at balance date were $50.655 million (2005: $43.132 million). These relate to airport development projects.

7. Subsequent events

On 22 February 2007, the directors approved the payment of an interim dividend of 3.75 cents per share amounting to $45.781 million to be paid on 30 March 2007.

8. 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 the preparation of 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. Changes continue to be made to NZ IFRS and therefore there may be further changes to the information disclosed below prior to adoption.

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

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

Key impact areas

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.

Property, plant and equipment:

The company currently revalues land and buildings, runways, 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, offsetting 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.

Investment properties:

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

The difference between fair value and market value is that disposal costs are not deducted to arrive at fair value. The result will be an increase in the value recorded for investment properties.

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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.

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

Reclassification of investment property and property, plant and equipment:
The company currently classifies undeveloped property 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. This will result in a movement in classification from property, plant and equipment to investment property, and revaluations will be accounted for accordingly.

Hedge accounting:
The company uses derivatives to manage its interest rate risks. The net differential, paid or received, on those derivatives is recognised as a component of interest expense or interest revenue 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 unrealised 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.

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

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

The terms of the employee share purchase plan and executive share option plan would be considered as equity-settled. For the employee share purchase plan, NZ IFRS requires that, at grant date, the discount to market value at the time of issue of the shares is measured and expensed over the period the employee provides the related services. For the Executive Share Option Plan, NZ IFRS requires that, at grant date, the fair value of the options is also measured and expensed over the period the employee provides the related services. In subsequent periods, adjustments are made to reflect changes only in the number of shares or options expected to vest or that have vested. The company intends to take up an allowed exemption for share options, on transition to NZ IFRS, to apply the change only to options granted subsequent to 7 November 2002.

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.

Employee benefits:
AIAL currently recognises a liability when long service leave is fully vested. Under NZ IFRS, long service leave is accrued as it is 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.

These financial statements have not been audited. They have been the subject of review by the auditors pursuant to NZICA Review Engagement Standards RS-1.

Review report

Deloitte.

To the shareholders of Auckland International Airport Limited

We have reviewed the consolidated interim financial statements on pages 22 to 31. The consolidated interim financial statements provide information about the past financial performance of Auckland International Airport Limited, its subsidiary and associate ('the Group') and its financial position as at 31 December 2006. This information is stated in accordance with the accounting policies set out in the Group's annual financial statements for the year ended 30 June 2006 dated 24 August 2006.

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 consolidated interim financial statements which give a true and fair view of the financial position of the Group as at 31 December 2006 and of the results of its operations and cash flows for the six month period ended on that date.

Independent accountant's responsibilities

We are responsible for reviewing the consolidated interim financial statements presented by the Board of Directors in order to report to you whether, in our opinion and on the basis of the procedures performed by us, anything has come to our attention that would indicate that the consolidated interim financial statements do not present fairly the matters to which they relate.

Basis of opinion

A review is limited primarily to enquiries of company personnel and analytical review procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

We have reviewed the interim financial statements of the Group for the six month period ended 31 December 2006 in accordance with the Review Engagement Standards issued by the New Zealand Institute of Chartered Accountants. These standards require that we plan and perform the review to obtain moderate assurance as to whether the consolidated interim financial statements are free of material misstatement.

Other than in our capacity as auditors under the Companies Act 1993 and the provision of taxation and accounting advice, we have no relationship with or interests in the Group.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the consolidated interim financial statements on pages 22 to 31 do not present fairly the financial position of the Group as at 31 December 2006 and the results of its operations and cash flows for the six month period ended on that date in accordance with generally accepted accounting practice in New Zealand.

Our review was completed on 22 February 2007 and our conclusion is expressed as at that date.

Deloitte

Chartered Accountants
Auckland, New Zealand

Corporate directory

Directors

John Maasland, chairman (appointed director on 3 August 2006, and elected as a director and chairman on 25 October 2006); Wayne Boyd (retired on 25 October 2006); Anthony Frankham; Michael Smith; Keith Turner; Joan Withers.

Management executive

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

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