AUCKLAND INTERNATIONAL AIRPORT LIMITED

IDENTIFIED AIRPORT ACTIVITIES

DISCLOSURE FINANCIAL STATEMENTS

Pursuant to the Airport Authorities (Airport Companies Information Disclosure) Regulations 1999

FOR THE YEAR ENDED

30 JUNE 2007

AUCKLAND INTERNATIONAL AIRPORT LIMITED
IDENTIFIED AIRPORT ACTIVITIES

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2007

	Notes	2007 $000	2006 $000
Operating revenue			
Airfield income		66,266	67,352
Development charge		64,389	60,405
Terminal services charge		21,888	17,274
Rental income		15,118	9,949
Interest income		637	179
Other		1,755	1,793
Total operating revenue		170,053	156,952
Operating Expenses			
Staff		26,841	22,129
Repairs and maintenance		17,474	15,239
Rates and insurance		2,662	1,823
Other		8,353	9,240
Total operating expenses	3	55,330	48,431
Earnings before interest, taxation and depreciation (EBITDA)		114,723	108,521
Depreciation	3	33,201	25,740
Earnings before interest and taxation (EBIT)		81,522	82,781
Interest expense	3	23,273	23,208
Surplus before taxation		58,249	59,573
Taxation expense	4	19,222	19,659
Surplus after taxation		39,027	39,914

The notes and accounting policies on pages 5 to 30 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

	Notes	2007 $000	2006 $000
Total recognised revenues and expenses			
Net surplus for the year		39,027	39,914
Increase in value of property, plant and equipment	14	20,813	439,830
		59,840	479,744
Contribution from owners			
Increase in share capital	9	1,070	1,601
		1,070	1,601
Distributions to owners			
Ordinary dividends paid	5	(42,821)	(38,736)
		(42,821)	(38,736)
Movements in equity for the year		18,089	442,609
Equity at beginning of year		852,733	410,124
Equity at end of year		870,822	852,733

The notes and accounting policies on pages 5 to 30 form part of and are to be read in conjunction with these financial statements.

AUCKLAND INTERNATIONAL AIRPORT LIMITED
IDENTIFIED AIRPORT ACTIVITIES

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2007

	Notes	2007 $000	2006 $000
Non-current assets			
Property, plant and equipment	6	1,252,947	1,181,306
Other non-current assets		522	431
		1,253,469	1,181,737
Current assets			
Bank	7	353	-
Inventories		77	62
Prepayments		2,678	1,785
Accounts receivable	8	8,819	9,600
Taxation receivable		4,168	4,181
		16,095	15,628
Total assets		1,269,564	1,197,365
Shareholders' equity			
Issued and paid-up capital	9	197,582	196,512
Retained earnings		(15,809)	(11,715)
Property, plant and equipment revaluation reserve	14	689,049	667,936
		870,822	852,733
Non-current liabilities			
Term borrowings	10	234,983	221,948
		234,983	221,948
Current liabilities			
Bank overdraft	7	-	56
Accounts payable	11	34,810	23,757
Short-term borrowings	10	125,887	95,977
Provision for noise mitigation	17	3,062	2,894
		163,759	122,684
Total equity and liabilities		1,269,564	1,197,365

The notes and accounting policies on pages 5 to 30 form part of and are to be read in conjunction with these financial statements.

Signed on behalf of the board on 20 November 2007 by:

John Maasland
DIRECTOR/CHAIRMAN OF THE BOARD

Anthony Frankham
DIRECTOR/CHAIRMAN OF THE AUDIT AND RISK COMMITTEE

AUCKLAND INTERNATIONAL AIRPORT LIMITED
IDENTIFIED AIRPORT ACTIVITIES

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2007

	Notes	2007 $000	2006 $000
Cash flow from operating activities			
Cash was provided from:			
Receipts from customers		170,790	154,702
Interest received		637	179
		171,427	154,881
Cash was applied to:			
Payments to suppliers and employees		(48,090)	(43,437)
Income tax paid		(19,208)	(22,654)
Other taxes paid		(242)	(411)
Interest paid		(23,369)	(21,675)
		(90,909)	(88,177)
Net cash flow from operating activities	12	80,518	66,704
Cash flow from investing activities			
Cash was provided from:			
Proceeds from sale of assets		92	75
		92	75
Cash was applied to:			
Purchase of property, plant and equipment		(80,256)	(18,532)
Interest paid - capitalised		(1,049)	(1,167)
Other investing activities		(90)	(431)
		(81,395)	(20,130)
Net cash applied to investing activities		(81,303)	(20,055)
Cash flow from financing activities			
Cash was provided from:			
Increase in share capital	9	1,070	1,601
Increase in borrowings		1,679,496	391,070
		1,680,566	392,671
Cash was applied to:			
Decrease in borrowings		(1,636,551)	(344,049)
Dividends paid	5	(42,821)	(95,675)
		(1,679,372)	(439,724)
Net cash flow applied to financing activities		1,194	(47,053)
Net increase/(decrease) in cash held		409	(404)
Opening cash brought forward		(56)	348
Ending cash carried forward	7	353	(56)

The notes and accounting policies on pages 5 to 30 form part of and are to be read in conjunction with these financial statements.

NOTES AND ACCOUNTING POLICIES

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

The disclosure financial statements are presented in accordance with the Airport Authorities Act 1966 as amended by the Airport Authorities Amendment Act 1997 and the Airport Authorities (Airport Companies Information Disclosure) Regulations 1999 (“Regulations”).

The disclosure financial statements are for the reporting entity's Identified Airport Activities. Identified Airport Activities are defined as:

- **Airfield activities** - being the provision of airfields, runways, taxiways and parking aprons for aircraft; the provision of facilities and services for air traffic control and parking apron control; provision of airfield and associated lighting; provision of services to maintain and repair airfields, runways, taxiways and parking aprons for aircraft; provision of rescue, fire, safety and environmental hazard control services; and the provision of airfield supervisory and security services;

- **Aircraft and freight activities** - being the provision, within a security area or other relevant areas of an airport, of hangars, facilities and services for refuelling of aircraft, flight catering and waste disposal, facilities and services for the storing of freight and the provision of security, customs and quarantine services for freight; and

- **Specified passenger terminal activities** - being the provision, within a security area or other relevant area of an airport, of passenger seating areas, thoroughfares and airbridges, the provision of flight information systems and public address systems, the provision of facilities and services for the operating of customs, immigration and quarantine checks and controls, facilities for the collection of duty free items, facilities for the operation of security and police services and check in and baggage handling.

Each segment also includes an allocation of supporting infrastructure.

Also included in each of the above Identified Airport Activities are assets specifically held for use in that activity.

Basis of preparation

The financial statements are prepared on the basis of historical cost, except that 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) 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 office equipment	3-10 years

(ii) **Bank and marketable securities**

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

(iii) **Accounts receivable**

Receivables are stated at their estimated realisable value.

(iv) **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.

(v) **Financial instruments**

Financial instruments in the statement of financial position include bank, receivables, trade payables and borrowings. The particular recognition methods adopted for bank 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.

(vi) **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.

(vii) **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.

(viii) **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.

(ix) **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.

(x) **Inventories**

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

(xi) **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.

(xii) **Changes in comparatives**

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

		2007 $000	2006 $000
3	**Expenses**		
	Operating expenses include:		
	Audit fees	103	122
	Auditor's other attestation fees	28	39
	Auditor's other compliance fees	96	125
	Directors' fees	380	348
	Donations	37	19
	Doubtful debts written off	148	16
	Doubtful debts - change in provision	(148)	54
	Loss on disposal of property, plant and equipment	449	874
	Staff expenses comprise:		
	Salaries and wages	15,903	16,500
	Phantom option plan	6,677	687
	Other staff costs	4,261	4,942
		26,841	22,129
	Depreciation by asset class:		
	Buildings and services	15,800	13,621
	Infrastructure	4,219	3,962
	Runway, taxiways and aprons	10,299	5,200
	Vehicles, plant and equipment	2,883	2,957
	Total depreciation by asset class	33,201	25,740
	Interest expense comprises:		
	Interest on borrowings	24,324	24,375
	Interest capitalised	(1,051)	(1,167)
		23,273	23,208

4 Taxation

	2007 $000	2006 $000
Taxation expense		
Surplus before taxation	58,249	59,573
Prima facie taxation at 33 per cent	19,222	19,659

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 $10.019 million (2006: $16.337 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 had an impact on the unrecognised deferred tax liability of $1.024 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.

	2007 $000	2006 $000
Imputation credits		
Balance at beginning of year allocated to Identified Airport Activities	17,751	16,829
Income tax paid	16,317	17,333
Credits attached to dividends paid	(18,337)	(16,505)
Other	(1)	94
Balance at end of year	15,730	17,751

		2007 $000	2006 $000
5	**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
	2007 interim dividend of 3.75 cents per share (fully imputed) paid on 30 March 2007 (2006: 3.75 cents)	45,784	45,786
	Total distributions (net of supplementary dividends)	100,106	100,228
	Less: amounts attributed to Non-Identified Airport Activities	(57,285)	(61,492)
	Dividends attributed to Identified Airport Activities	**42,821**	**38,736**

Dividends paid and to be paid has been attributed to Identified Airport Activities on the basis of surplus after tax.

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 19 October 2007. A portion of the final dividend will be attributed to Identified Airport Activities in the subsequent reporting period.

		2007 $000	2006 $000
6	**Property, plant and equipment**		
	Land		
	At valuation	560,019	551,356
	Additions at cost or reclassification	499	-
		560,518	551,356
	Buildings and services		
	At valuation	281,469	251,476
	Additions at cost or reclassification	9,505	-
	Work in progress at cost	50,225	11,099
	Accumulated depreciation	(15,800)	-
		325,399	262,575
	Infrastructure		
	At valuation	102,100	101,620
	Additions at cost or reclassification	5,286	-
	Work in progress at cost	1,848	2,301
	Accumulated depreciation	(4,219)	-
		105,015	103,921
	Runway, taxiways and aprons		
	At valuation	251,620	251,961
	Additions at cost or reclassification	4,569	-
	Work in progress at cost	6,729	2,894
	Accumulated depreciation	(10,271)	-
		252,647	254,855
	Vehicles, plant and equipment at cost		
	At cost	44,743	43,006
	Work in progress at cost	2,507	592
	Accumulated depreciation	(37,882)	(34,999)
		9,368	8,599
	Total property, plant and equipment	**1,252,947**	**1,181,306**

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 and site improvements on commercial properties 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.
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.
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.
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.

Additions for the year ended 30 June 2007 include capitalised interest of $1.053 million (2006: $1.167 million).

		2007 $000	2006 $000
7	**Bank balances**		
	Cash and bank balances	353	(56)

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

		2007 $000	2006 $000
8	**Accounts receivable**		
	Receivables	8,872	9,848
	Less: Provision for doubtful debts	(53)	(248)
		8,819	9,600

9 Issued and paid-up capital

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 excercised pursuant to the Executive Share Option Plan. Details of these options are disclosed in note 20. Shares were allocated in May 2004 under the Employee Share Purchase Plan as disclosed in note 19.

The value of share capital attributed to Identified Airport Activities is as follows:

	2007 $000	2006 $000
Issued and paid-up capital at the beginning of the year	196,512	194,911
Add: options exercised and shares issued during the year	1,070	1,601
Total share capital	197,582	196,512

10 Borrowings

At balance date the following borrowing facilities were in place for the company:

	Coupon	2007 $000	2006 $000
Term borrowings			
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
Bonds maturing 15 November 2008	7.50%	37,155	37,155
Bonds maturing 15 November 2008	6.64%	38,270	38,270
Bonds maturing 29 July 2009	6.67%	66,900	66,900
Bonds maturing 29 July 2009	Floating	8,100	8,100
Bonds maturing 29 July 2011	6.83%	70,000	70,000
Bonds maturing 29 July 2011	Floating	5,000	5,000
Bonds maturing 7 November 2012	7.19%	50,000	50,000
Bonds maturing 7 November 2015	7.25%	100,000	100,000
Bridge facility	Floating	75,000	-
Bank facility	Floating	145,000	125,000
Term borrowings		**595,425**	**600,809**
Short-term borrowings			
Bonds maturing 15 November 2006	8.00%	-	32,223
Bonds maturing 15 November 2006	6.50%	-	34,485
Bonds maturing 15 November 2006	Floating	-	8,900
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 three months	Floating	195,000	180,000
Money market	Floating	23,600	4,200
Short-term borrowings		**318,984**	**259,808**
Total borrowings		**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 ten 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 a by 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 per cent and 8.39 per cent (2006: 7.18 per cent and 8.06 per cent). 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 per cent and 8.39 per cent (2006: 7.01 per cent and 7.67 per cent). The bank facility rates during the year ended 30 June 2007 have been between 7.72 per cent and 8.66 per cent (2006: 7.72 per cent and 7.96 per cent). The bridge facility rates during the year have been between 7.65 per cent 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 per cent and 8.05 per cent (2006: 6.80 per cent and 7.30 per cent).

The borrowings have been allocated to the Identified Airport Activities as follows:

	2007 $000	2006 $000
Term borrowings	234,983	221,948
Commercial paper	76,957	66,495
Bonds and money market	48,930	29,482
Short-term borrowings	125,887	95,977
Total borrowings attributed to Identified Airport Activities	360,870	317,925
Borrowings attributed to Non-Identified Airport Activities	553,539	542,692
Total borrowings of the company	914,409	860,617

Undrawn bank, bridge and stand-by facilities have not been allocated between the company's Identified Airport Activities.

11 Accounts payable

	2007	2006
Employee entitlements	3,610	3,546
Phantom option plan accrual	6,677	687
GST payable	1,231	841
Property, plant and equipment retentions and payables	11,574	8,309
Other payables and accruals	11,718	10,374
	34,810	23,757

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

	2007	2006
Surplus after taxation	39,027	39,914
Non-cash items:		
Depreciation	33,201	25,740
Bad and doubtful debts	-	70
Items not classified as operating activities:		
Asset disposals	449	874
(Increase)/decrease in property, plant and equipment retentions and payables	(3,263)	3,905
Increase/(decrease) in employee share purchase loan	90	131
Movement in working capital:		
(Increase)/decrease in current assets	(218)	(1,359)
(Increase)/decrease in taxation receivable	13	(2,995)
Increase/(decrease) in accounts payable	11,219	424
Net cash flow from operating activities	80,518	66,704

13 Financial instruments

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

Interest rate risk:
The company's policy is to manage its interest rate risk. At year-end 41% (2006: 53%) of the company 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 the company's derivative financial instruments outstanding at balance date were:

	2007 $000	2006 $000
Interest rate swaps	477,900	543,000
Forward rate agreements	-	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 and tenants. 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. 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 for the company at balance date 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.

Interest rate swaps and forward rate agreements have not been apportioned between Identified Airport Activities and Non-Identified Airport Activities. The carrying value of bonds have been apportioned between Identified Airport Activities and Non-Identified Airport Activities at note 10.

	2007 $000	2006 $000
14 Property, plant and equipment revaluation reserve		
Balance at beginning of year	667,936	228,106
Property, plant and equipment net revaluations	-	439,830
Property, plant and equipment revaluation movements due to allocation changes	20,813	-
Reclassification of reserve on disposal	300	-
Balance at end of year	689,049	667,936

15 Capital commitments

Capital commitments entered into but not accrued at balance date were $52.120 million (2006: $20.294 million).

These relate to airport development projects.

16 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 of a second runway to the north and parallel to the existing runway. The first stage is expected to be operational sometime 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 no 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 substancial customers completed on the 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 optinion that there are strong arguments to defend the claim.

There were no other contingent liabilities outstanding at 30 June 2007 (2006: Nil).

17 Provision for noise mitigation

Over March and April 2005, the company made acoustic treatment offers to the owners of 470 existing homes, two pre-schools and to Puhinui School in respect of existing buildings. Those offers have now expired with acceptances received from 46 houses and Puhinui School.

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.

	2007 $000	**2006 $000**
Opening balance	2,894	-
Provisions made in the period	2,411	2,894
Unused amounts reversed in the period	(899)	-
Expenditure in the period	(1,344)	-
	3,062	**2,894**

18 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. There are no material related party transactions included in the Identified Airport Activities. The Identified Airport Activities form part of Auckland International Airport and many purchases of services and revenues have been allocated between the various businesses, rather than one division supplying services to another.

19 Employee share purchase plan

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

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

The company advanced to the purchase plan all the monies necessary to purchase the shares under the purchase plan. The advances are repayable by way of deduction from the employee's regular remuneration. The terms of such loans are determined by the company. The amount payable by the purchase plan to the company, and attributable to Identified Airport Activities, at balance date is $0.007 million (2006: $0.083 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 and C F Spillane are currently the chief financial officer and general counsel and corporate secretary of Auckland International Airport Limited respectively. They are appointed and can be removed by the company.

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)
	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 Shares	2006 Shares
Unallocated shares held by the plan		
Opening 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 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 per cent (2006: 0.033 per cent) of the total company's shares on issue.

Shares held by the purchase plan have not been apportioned between Identified Airport Activities and Non-Identified Airport Activities.

20 Executive share option incentive plan

FOR THE YEAR ENDED 30 JUNE 2007

Executive share option plan:
As part of executive remuneration, the company has established the Executive Share Option Plan ("option plan") to assist in attracting and retaining key executives, and ensuring that the interests of those executives and the company are aligned. The company has issued options for shares in the company to certain employees under the terms of the option plan. The holder of an option is entitled to subscribe for one fully paid share for each option. The exercise price is determined based on the company's share price at the date of issue of the option adjusted to reflect movements in the NZX 40 gross index between the date of issue and the date of exercise of the option, less any dividends and the capital repayment 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 twenty five 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 company 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
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 number of options granted.

Options issued under the option plan have not been apportioned between Identified Airport Activities and Non-Identified Airport Activities.

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 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 both phantom plans attributable to Identified Airport Activities is $6.372 million (2006: $0.687 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.

21 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.

In accordance with the Airport Authorities (Airport Companies Information Disclosure) Regulations 1999 Section 8(3), additional information is provided below:

Segmental Information 30 June 2007

	Identified Airfield Activities $000	Identified Passenger Terminal Activities $000	Identified Aircraft and Freight Activities $000	Total Identified Airport Activities $000
Operating revenue				
Airfield income	66,266	-	-	66,266
Development charge	-	64,389	-	64,389
Terminal services charge	-	21,888	-	21,888
Other income	1,065	11,317	5,128	17,510
Total revenue	**67,331**	**97,594**	**5,128**	**170,053**
Operating expenses				
Staff	12,638	13,769	434	26,841
Repairs and maintenance costs	2,304	14,922	248	17,474
Rates and insurance	1,104	1,479	79	2,662
Other	3,787	4,392	174	8,353
Depreciation	13,933	18,296	972	33,201
Total expenses	**33,766**	**52,858**	**1,907**	**88,531**
Contribution before interest and taxation	**33,565**	**44,736**	**3,221**	**81,522**
Net surplus after taxation	**12,268**	**25,755**	**1,004**	**39,027**
Total assets employed	**769,262**	**387,135**	**113,167**	**1,269,564**
Total shareholders' equity	**546,642**	**239,795**	**84,385**	**870,822**

Segmental Information 30 June 2006

	Identified Airfield Activities $000	Identified Passenger Terminal Activities $000	Identified Aircraft and Freight Activities $000	Total Identified Airport Activities $000
Operating revenue				
Airfield income	67,352	-	-	67,352
Development charge	-	60,405	-	60,405
Terminal services charge	-	17,274	-	17,274
Other income	1,039	5,655	5,227	11,921
Total revenue	**68,391**	**83,334**	**5,227**	**156,952**
Operating expenses				
Staff	11,207	9,845	1,077	22,129
Repairs and maintenance costs	2,086	12,819	334	15,239
Rates and insurance	891	862	70	1,823
Other	4,907	3,829	504	9,240
Depreciation	8,522	15,602	1,616	25,740
Total expenses	**27,613**	**42,957**	**3,601**	**74,171**
Contribution before interest and taxation	**40,778**	**40,377**	**1,626**	**82,781**
Net surplus after taxation	**16,151**	**22,786**	**977**	**39,914**
Total assets employed	**769,161**	**322,781**	**105,423**	**1,197,365**
Total shareholders' equity	**546,340**	**225,043**	**81,350**	**852,733**

22 Events subsequent to balance date

On 23 August 2007, the directors approved the payment of a fully imputed final dividend of $54.365 million (4.45 cents per share) to be paid on 19 October 2007. A portion of the final dividend will be attributed to Identified Airport Activities in the subsequent reporting period.

On 23 July 2007, the company announced a proposed transaction with Dubai Aerospace Enterprise (DAE) which, if approved by shareholders, would have seen DAE acquire an interest of between 51% and 60% in the company and become a strategic partner. The proposed transaction was terminated on a mutually acceptable basis on 6 September 2007.

On 31 October 2007, the company announced that it had ceased discussions with Canada Pension Plan Investment Board (CPPIB) in relation to a proposed transaction for CPPIB to acquire a significant interest in Auckland Airport. On 7 November 2007 the company received a statement from CPPIB that they intend to make an all cash offer to all shareholders of Auckland Airport for 40% of the shares at a price of $3.6555 per share.

23 Adoption of New Zealand equivalents to International Financial Reporting Standards

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

A project team, monitored by an internal IFRS steering group chaired by the chief financial officer, has been established to plan and implement the company’s transition to NZ IFRS, subject to policy determination by the board. To date the project team has completed a detailed technical evaluation of NZ IFRS standards and has identified NZ IFRS accounting policies. The project team has 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 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 company is not at a stage in its transition project to enable it to reliably quantify the financial impacts on the financial results for the Identified Airport Activities. The actual impact of adopting NZ IFRS may vary from the information presented in these financial statements and the variation may be material.

On transition to NZ IFRS most of the adjustments required will be made against opening retained earnings and revaluation reserves.

Key impact areas:

(a) Deferred taxation:

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

Furthermore, the company currently accounts for deferred taxation using the partial basis which means that a deferred tax liability is only recognised to the extent that it can be foreseen to crystallise in the future. The partial basis of accounting for deferred taxation is not allowed under NZ IFRS. The most significant impact identified to date is the recognition of a deferred tax liability in respect of the revaluation of property, plant and equipment. The effect of this change on the Identified Airport Activities will be to recognise a deferred tax liability in the statement of financial position, a decrease in the property, plant and equipment revaluation reserve and a movement in retained earnings on transition to NZ IFRS as at 1 July 2006.

(b) Property, plant and equipment:

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

(c) 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.

(d) Share-based payments:

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

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

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

The 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.

(e) 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.

ADDITIONAL INFORMATION TO BE INCLUDED IN DISCLOSURE FINANCIAL STATEMENTS OF SPECIFIED AIRPORT COMPANIES

The schedule to the Airport Authorities (Airport Companies Information Disclosure) Regulations 1999 specifies a series of additional disclosures which are provided below.

1 Current charges for Identified Airport Activities

The price per unit of charges for Identified Airport Activities.

1.1 Airfield charges effective from 1 November 2001:

LANDING CHARGES (BASED ON MCTOW)

(i)	Aircraft under 3,000 kg	$14.1093750 per landing	- operators with 25 flights or more per month
		$28.2187500 per landing	- operators with less than 25 flights per month
(ii)	Aircraft 3,000 kg and higher but under 6,000 kg	$0.0048536 per kg	- operators with 25 flights or more per month
		$28.2187500 per landing	- operators with less than 25 flights per month
(iii)	Aircraft 6,000 kg and higher but under 40,000 kg	$0.0073369 per kg	
(iv)	Aircraft 40,000 kg and higher	$0.0118519 per kg	- international flights
		$0.012905 per kg	- domestic flights

- This charge covers the use of runway, taxiway and apron areas (excluding parking) and the services of the Rescue Fire unit.
- A 50% discount applies to training flights (multiple touch-and-go training flights are counted as one landing) for aircraft over 6,000 kg.

PARKING CHARGES (NON-SCHEDULED FLIGHTS ONLY)

(a) Aircraft under 6,000 kg MCTOW

(i) Parking up to 6 hours - No charge.
(ii) Parking in excess of 6 hours - $50.00 for every 24 hour period or part period from time of landing.

(b) Aircraft 6,000 kg and higher but under 40,000 kg MCTOW

(i) Parking up to 6 hours - No charge.
(ii) Parking between 6 hours and 5 days - $75.00 for every 24 hour period or part period from time of landing.
(iii) Parking between 6 and 10 days - $100.00 for every 24 hour period or part period from day 6 to day 10.
(iv) Parking in excess of 10 days - $150.00 for every 24 hour period or part period from day 10 onwards.

(c) Aircraft 40,000 kg MCTOW and higher

(i) Parking up to 6 hours - No charge.
(ii) Parking between 6 hours and 5 days - $100.00 for every 24 hour period or part period from time of landing.
(iii) Parking between 6 and 10 days - $250.00 for every 24 hour period or part period from day 6 to day 10.
(iv) Parking in excess of 10 days - $500.00 for every 24 hour period or part period from day 10 onwards.

1.2 Aircraft and freight activities

Income from aircraft and freight activities is detailed below:

• Fuel line	Rental of land used for the fuel line plus a charge of $0.0016 per litre that passes through the line.
• Rentals	Buildings and ground rentals are charged to tenants based on commercial market rates for services provided or at rates set in historical arrangements.

1.3 Charges for specified passenger terminal activities

1.3.1 Airport development charge

The company charges departing international passengers an airport development charge of $25.00 for all passengers who are:

- 12 years of age and over; and
- not bona fide transit passengers en route to another international port and staying less than 24 hours; and
- not a bona fide international diplomat from a foreign country.

The company increased the airport development charge from $22.00 to $25.00 from 1 January 2003 to recover additional costs associated with specified passenger terminal activities.

The company retained $20.00 of this $25.00 charge, inclusive of Goods and Services Tax ("GST"). The $5.00 balance paid to Government contributes to Aviation Security and Civil Aviation Authority costs.

Exemptions for children under the age of 12 provided a direct subsidy from the company as the $5.00 Government charge was payable for all passengers over two years of age.

From 1 October 2005, the airport development charge retained by the company increased to $25.00, inclusive of GST, after the Government $5.00 charge for Aviation Security and the Civil Aviation Authority services became payable by the airlines.

1.3.2 Terminal services charge

This charge is levied directly to airlines for use of the international terminal.

This charge is calculated annually and levied to each airline on a fixed charge per month. Some airlines are not party to the Terminal Services Agreement and those airlines pay a separate charge if embarking and/or disembarking passengers from aircraft using any of the international terminal passenger-only facilities as follows:

- With airbridge, or transfer bus use - $15.00 for each embarking and each disembarking passenger.
- Without airbridge, or transfer bus use - $8.50 for each embarking and each disembarking passenger.

Note: The effective terminal services charge per passenger is lower than these rates. It should be calculated as terminal services charge divided by total international passenger movements.

During the year the company revised the allocation of assets recovered through the terminal services charge.

1.3.3 Other charges for space and services provided in the terminals is on a general tenancy basis. These rentals are determined on normal commercial arrangements with reference to the services provided, the area rented and the costs incurred by the company.

2 The methodology used to determine charges

2.1 Airfield charges

Landing charges are set on the basis of Maximum Certified Takeoff Weight ("MCTOW") for all aircraft with the exception of some small aircraft (under 3,000 kg) which pay a fixed cost per landing.

Landing charges are structured on a cost recovery basis. Smaller, lighter aircraft pay lower unit charges per kg than larger, heavier aircraft. The landing charges for different classes of users are determined on an incremental basis whereby all users share in the cost recovery of the common section of the runway. Larger carriers that require longer runway services pay for that incremental section.

The overall cost recovered is equal to the target revenue and is determined by adding:

- Direct cost of operations including depreciation.
- Weighted Average Cost of Capital ("WACC") return on assets employed, where land is calculated by a Market Value Existing Use ("MVEU") valuation and other assets are calculated by an Optimised Depreciated Replacement Cost ("ODRC") valuation.
- An allocation of indirect costs and capital of the company that are necessary to support the Identified Airfield Activities.

The current landing charges set on 1 September 2001 will stay in effect until 1 September 2007.

2.2 Aircraft and freight charges

Aircraft and freight charges are determined with reference to the overall cost, both direct and allocated, of delivery of the specified services. The charges are determined by contracts between the company and customers on a regular basis.

2.3 Passenger charges

Passenger charges relate 100% to specified passenger terminal activities. There has been no allocation of this revenue to the other Identified Airport Activities. Passenger terminal charges include airport development charges, terminal services charge, and sundry charges which include rental income.

The charges have been calculated with reference to a full cost recovery of all costs associated with providing the specified passenger terminal activities, after allowing for other revenue received through leases, terminal services agreements and other revenues attributed to specified passenger terminal activities. The full cost has been calculated by adding:

- Direct cost of operations including depreciation.
- An allocation of indirect costs and capital of the company that are necessary to support the specified passenger terminal activities.
- Weighted Average Cost of Capital ("WACC") return on assets employed, where land is calculated by a Market Value Existing Use ("MVEU") valuation and other assets are calculated by an Optimised Depreciated Replacement Cost ("ODRC") valuation.

The total revenue requirement is divided by the estimated passenger numbers (after allowing for exempt passengers) to determine the individual passenger charge. This charge was $22.00 for passengers (not otherwise exempt) for the period until 31 December 2002 and $25.00 from 1 January 2003 onwards.

The total revenue from airport development charges that was retained by the company was $64,388,515 exclusive of GST. In addition a terminal services charge is levied directly on airlines using services within the terminal.

The terminal services charge is used to recover certain costs within the specified passenger terminal activities. There are three components to the charge, a space charge, asset charge and operating cost recovery charge.

This charge is updated and agreed annually and was $21,888,524 exclusive of GST for the year ending 30 June 2007.

3 Allocation of assets

The company maintains a detailed property, plant and equipment register. A comprehensive revaluation was completed as at 30 June 2006 as per the company's accounting policy and as outlined in applicable financial reporting standards and applicable valuation standards.

All assets have been allocated to a business segment. The majority of assets have been allocated directly. Where assets are allocated to a number of business segments, they have been apportioned between the affected activities using an activity based costing methodology or the nearest proxy to it. Where assets support a number of activities, analysis has been done to assess the approximate distribution between identified activities and non-identified activities at the asset class level.

Material asset classes and apportionment approaches are detailed below:

a) Specified passenger terminal property, plant and equipment, including land and buildings, have been generally apportioned on the basis of floor area. All floor areas associated with retail activities, and specific contestable tenancies that are outside the security area, have been treated as commercial and not as a specified passenger terminal activity.

b) Land held for future airport development has been allocated between the various activities of the company on the basis of its intended future use.

c) Roads have been allocated using an estimation of their primary purpose and usage excluding through traffic.

d) Stormwater assets have been allocated on the basis of the sealed areas. Wastewater assets have been allocated on the basis of their estimated usage across the business.

e) Current assets have been allocated to each business segment on the basis of the underlying transactions. Cash has been allocated on the basis of net surplus after tax.

4 Allocation of debt

Debt is allocated between business segments based on the assumption that it represents the net position of the segments after all other cash flows. It represents intra-segmental borrowing.

5 Allocation of equity

The equity position of each segment is calculated with reference to the opening level of equity, adjusted for movements due to net profit less dividends in the segment plus or minus any capital issued or repaid. Dividends are allocated between segments on the basis of surplus after tax. The capital repayment made during 2002-03 and the buy-back of shares during 2005-06 have been allocated to Non-Identified Airport Activities.

6 Operational costs

Expenditure falls into one of the following categories:

a) Direct operational costs
These costs are incurred solely by Identified Airport Activities, or another business unit of the airport, and have been allocated directly to the area affected.

b) Indirect costs
Those costs that are either incurred by a number of Identified Airport Activities, or in conjunction with other business units. Following a review of the company's approach to the allocation of indirect costs based on discussions in the recent pricing consultation, these shared or indirect costs are primarily allocated on the basis of international terminal space. Previously, the company had allocated indirect costs on the basis of the estimated standalone resource requirements adjusted for a share of the efficiency of combined operations.

c) Non-operational costs
Costs such as interest expenses, finance costs and taxation expenses. These have been allocated to the Identified Airfield Activities on the following basis:

Interest and finance costs	Allocated on the same ratio as borrowings.
Taxation expense	Allocated on the basis of 33% of surplus before tax of Identified Airport Activities.

d) Cost of depreciation
Actual depreciation charged per asset and allocated to the same business segment as the asset.

Detailed disclosures of the various operational costs as required by clause 6 are detailed in note 21.

7 Weighted average cost of capital (WACC)

The company revises its input parameters for calculating WACC periodically to coincide with major pricing reviews. The last major review was completed in the period September 1999 through to August 2000. Except for the reviews undertaken for the purposes of the airport development charge referred to below, there has been no major pricing review completed in the intervening period to 30 June 2007.

The calculation of WACC for a particular portion of a company cannot be a precise number, but one that is subject to expert assessment and judgment and, as such, an estimated range has been provided.

The company has used the domestic Brennan-Lally Capital Asset Pricing Model to calculate an estimate of the Identified Airport Activities' WACC.

The key assumptions used within the calculation are:

• Risk free rate 6.97%	being the yield on 04/04 Government stock in March 2000.
• Post-tax market risk premium	9.0%
• Company tax rate	33.0%
• Debt margin	1.0%
• Debt to debt plus equity ratio	40.0%
• Asset beta	0.4 - 0.5 (range)

Based on the above parameters the resultant WACC is in the range of 8.5% to 9.4%.

In November 2002 the company announced that it was revising upwards the airport development charge from $22.00 (GST inclusive) to $25.00 (GST inclusive) from 1 January 2003.

Approximately half of the revenue from this increase replaced a portion of the terminal services revenue previously recovered from the airlines. The total revenue from the terminal services charge and the revenue retained by the company from the airport development charge are included in the specified passenger terminal activities.

During the consultation process to increase the airport development charge, the company revised its WACC calculation as follows:

• Risk free rate 6.12%	being the approximate yield on five year Government stock as at 21 October 2002.
• Post-tax market risk premium	8.0% - 9.0% (range)
• Company tax rate	33.0%
• Debt margin	1.0%
• Debt to debt plus equity ratio	40.0%
• Asset beta	0.4 - 0.5 (range)

Based on the above parameters the resultant WACC is in the range of 7.5% to 9.7% with a midpoint of 8.7% on a nominal after-tax basis.

From 1 October 2005, the airport development charge retained by the company increased to $25.00, inclusive of GST after the Government $5.00 charge for Aviation Security and the Civil Aviation Authority services became payable by the airlines.

During the consultation process to increase the airport development charge to be retained by the company, the company revised its WACC calculation as follows:

• Risk free rate 6.20%	being the yield for a average daily two week period of the closing prices up to and including 8 April 2005, on five year Government stock
• Post-tax market risk premium	7.0% - 7.5% (range)
• Company tax rate	33.0%
• Debt margin	1.07% - 1.17% (range)
• Debt to debt plus equity ratio	25% to 35% (range)

- Asset beta 0.6 - 0.8 (range)

Based on the above parameters, the resultant WACC is in the range of 8.5% to 10.4% with a midpoint of 9.5% on a nominal after-tax basis.

There has been no material changes to the capital structure of the Identified Airport Activities during the year.

8 Statistical information

All statistical information relates to Identified Airport Activities.

8.1 Passenger numbers for the year ended 30 June 2007:

	Domestic	**International**	**Transfers and Transits**	**Total**
Arrivals	2,554,555	3,174,909	889,388	6,618,852
Departures	2,514,239	3,198,518	-	5,712,757
	5,068,794	6,373,427	889,388	12,331,609

8.2 The number of scheduled landings of international flights are as follows:

Aircraft type	**Number of landings 2007**
A320	2,962
A332	162
A333	42
A342	325
A343	1,265
A345	368
A346	354
B703	1
B722	239
B732	5
B733	636
B734	117
B737	132
B738	1,591
B742	1
B743	43
B744	2,648
B752	1
B763	4,753
B772	2,319
B773	729
C25B	1
CVLT	32
MD11	2
WW24	3
Total	**18,731**

8.3 The number of scheduled landings of domestic flights where the MCTOW equals or exceeds three tonnes are as follows:

Aircraft type	**Number of landings 2007**
A320	669
A343	1
A346	1
AT72	2,327
B190	15,620
B732	373
B733	17,097
B734	788
B738	9
B744	12
B763	29
B772	267
CVLT	651
DH8C	7,926
F27	277
JS32	536
JS3A	12
JS41	90
PA31	14
SF34	3,251
SW4B	410
SW4C	99
TRIS	833
Total	**51,292**

8.4 The number of scheduled landings of domestic flights where the MCTOW is less than three tonnes are as follows:

Aircraft type	**Number of landings 2007**
BN2P	1,799
C172	4
C206	2
P28A	1
P68	170
PA27	278
PA32	137
PA34	1
Total	**2,392**

8.5 The total number of landings of all other types of aircraft not included above. These include non-scheduled flights, freight, military aircraft and others.

Aircraft type	**Number of landings 2007**
Various aircraft types	5,340

8.6 The summary of the total number of landings is as follows:

	Number of landings 2007
Scheduled International	18,731
Scheduled Domestic >= 3000 kg	51,292
Scheduled Domestic < 3000 kg	2,392
Unscheduled and other landings	5,340
Total number of arrivals	**77,755**
Total number of flight movements	**155,875**

All aircraft landing at Auckland International Airport use all three Identified Airport Activities.

8.7 Interruptions

The total number and duration of planned and unplanned interruptions during the period 1 July 2006 to 30 June 2007 is shown below.

Planned interruptions are where the substantial customers are given at least 24 hours notice of the interruption; otherwise the interruption is deemed to be unplanned. An interruption has been defined as a withdrawal of service by the company, which in turn results in a loss of services to the customer for a period of 15 minutes or longer.

Runway services:

Planned

There was one instance when runway services were unavailable for use by aircraft due to repairs and maintenance work on the runway. The services were interrupted for a total duration of 30 minutes.

Unplanned

There were ten instances when runway services were unavailable for use by aircraft. The services were interrupted for a total duration of 3 hours and 30 minutes.

Stand position services:

Planned

There were two instances of planned interuption to stand position services. From 21 November 2006, stand 1 was taken out of service as part of a major reconfiguration and refurbishment upgrade process and remained out of service until 30 June 2007. Additionally, stand five was unavailable due to an audible alarm problem for 12 hours.

Unplanned

There was a total of one day when one stand position was unavailable due to breakdown.

There was a total of five hours and forty-five minutes when four stand positions were unavailable due to access control.

There was a total of one hour and ten minutes when three stand positions were unavailable due to electrical problems.

There was a total of twenty-six hours when two stands positions were unavailable due to mechnical problems.

There was a total of fifteen minutes when one stand position was unavailable due to a tyre puncture.

There was a total of forty minutes when one stand position was unavailable due to a minor canopy fire.

Airbridge services:

Planned

There were two instances of planned interuption to stand position services, and therefore airbridge services. From 21 November 2006, stand 1 was taken out of service as part of a major reconfiguration and refurbishment upgrade process and remained out of service until 30 June 2007. Additionally, stand five was unavailable due to an audible alarm problem for 12 hours.

Unplanned

There were thirteen instances totalling six hours and thirty minutes of unplanned interruptions when airbridge services were unavailable due to maintenance work on airbridges.

Baggage handling systems:

Planned

There were no instances of planned interruptions when the baggage handling system was unavailable to customers.

Unplanned

There were fifty-three instances totalling three days of unplanned interruptions when the baggage handling system was unavailable to customers.

8.8 The average number of full-time equivalent employees throughout the reporting period, including allocations of staff in supporting areas was:

	2007	
	Total Staff	**Operating Staff**
Airfield activities	127.1	115.6
Specified passenger terminal activities	103.5	99.9
Aircraft and freight activities	2.6	2.4
Total full-time equivalent staff allocated to Identified Airport Activities	**233.1**	**217.8**

9 Recent aeronautical pricing consultation process

9.1 Key differences

The company has recently revised its charges relating to certain of its Identified Airport Activities. These charges have effect from 1 September 2007 to 30 June 2012. The following note outlines the key differences in the approach taken for the setting of such prices for this period. This approach did not apply to the disclosure financial statements for the year ended 30 June 2007 and accordingly, no similar adjustment has been made to these financial statements.

The unaudited pricing model for the period from 1 September 2007 to 30 June 2012 has had the following adjustments made to it:

			$millions	$millions
Note	Item	Area impacted	Airfield	Terminal
a	Southern runway	Asset base from 1 September 07	(83.6)	
b	Northern runway	Asset base from 1 September 07	(68.2)	
c	Seabed	Asset base from 1 September 07	(8.8)	
d	Land under the international terminal building (ITB)	Asset base from 1 September 07		(20.1)
e	Land under the domestic terminal building (DTB)	Asset base from 1 September 07		(4.5)
f	Airfield roads	Asset base from 1 September 07	(4.3)	
g	Rescue fire facilities	Asset base from 1 September 07		(1.4)
h	Waste collection	Asset base from 1 September 07	(0.4)	
i	Stormwater reclaimed land	Asset base from 1 September 07	(0.3)	(0.1)
j	Sharing of unexpected revaluations	Economic profit	(99.0)	
k	Concession to terminal economic profit	Economic profit		(7.5)

<u>Notes</u>

a The southern runway asset value was adjusted to:
- optimise Wiroa Island land
- reduce the value per hectare from the Market Value Existing Use (MVEU) value to an opportunity cost value, assumed to be equivalent to Market Value Alternative Use (MVAU)
- reduce the value per hectare of reclaimed land from the ODRC value to the MVAU value
- optimise 50% of the land adjacent to runway end protection zones

b The northern runway asset value was adjusted to:
- temporarily optimise 44% of the airfield land to reflect a partial use of the Northern Runway at 1200 meters and the staged nature of development
- reduce the value per hectare from the MVEU value to a MVAU value
- temporarily optimise 44% of the runway end protection areas
- temporarily optimise 72% of the land adjacent to runway end protection zones

c 100 % optimised

d ITB Land included at airfield MVAU rates and a proportion share of the terminal footprint

e DTB Land included at airfield MVAU rates and a proportion share of the terminal footprint

f Land under airfield roads was adjusted to:
- optimise roads on Wiroa Island
- reduce the value per hectare from MVEU to MVAU

g Land under Rescue Fire Facilities was reduced from MVEU to MVAU

h Land under Waste Collection discounted from MVEU to MVAU

i Reclaimed stormwater land was discounted from its ODRC value to the MVAU value

j The target economic profit on airfield was reduced from zero to negative $99 milliion to reflect the fact that over the previous pricing period, land values had increased above expectations

k The target economic profit was reduced for the terminal to reflect the fact that there had been some economic profit in the terminal since the ADC had been reset at $25 on and from 1 October 2005.

AIAL has agreed to a moratorium on asset revaluations for aeronautical pricing purposes from 2007 to 2017.

Weighted average cost of capital (WACC)

The company also revised the input parameters for calculating the WACC on 21 June 2007, on a forward looking basis, for aeronautical pricing purposes over the pricing period from 1 September 2007 through to 30 June 2012.

The calculation of WACC for a particular portion of a company cannot be a precise number, but one that is subject to expert assessment and judgment and, as such, an estimated range has been provided.

The company used the domestic Brennan-Lally Capital Asset Pricing Model to calculate an estimate of the Identified Airport Activities' WACC.

The key assumptions used within the calculation are:

• Risk free rate	7.26%
• Post-tax market risk premium	7- 8%
• Company tax rate	30 - 33% (see below)
• Debt margin	1.29% - 1.39%
• Debt to debt plus equity ratio	35 - 45%
• Asset beta	0.5 - 0.7

Based on the above parameters, the resultant WACC is in the range of 8.67% to 10.88% for the year ended 30 June 2008 whilst the tax rate is at 33%. From 1 July 2009 the first financial period after the change in corporate tax rates, the WACC is estimated to be in the range of 8.76% to 11.00%.

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AUDITORS' REPORT

To the readers of the Auckland International Airport Limited ('the Company') Identified Airport Activities Disclosure Financial Statements ('disclosure financial statements').

We have audited the accompanying disclosure financial statements of Auckland International Airport Limited on pages 1 to 30 which include financial statements and additional information relating to the Company's Identified Airport Activities. The disclosure financial statements are required by Regulation 4 of the Airport Authorities (Airport Companies Information Disclosure) Regulations 1999. The disclosure financial statements provide information about the past financial performance of the Company's Identified Airport Activities and its financial position as at 30 June 2007. This information is stated in accordance with the accounting policies set out on pages 5 to 7.

Board of Directors' Responsibilities

The Airport Authorities (Airport Companies Information Disclosure) Regulations 1999 require the Directors to prepare disclosure financial statements which give a true and fair view of the financial position of the Company's Identified Airport Activities as at 30 June 2007 and the results of its operations and cash flows for the year ended on that date.

Auditors' Responsibilities

It is our responsibility to you an independent opinion on the disclosure 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 disclosure financial statements. It also includes assessing:

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

We conducted our audit in accordance with generally accepted auditing standards in New Zealand.

We planned and performed our audit so as to obtain all the information and explanations, which we considered necessary. We obtained sufficient evidence to give reasonable assurance that the disclosure 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 disclosure financial statements.

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

Unqualified Opinion

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

In our opinion:

- proper accounting records have been kept by the Company's as far as appears from our examination of those records.

- the disclosure financial statements on pages 1 to 30 that are required by Regulation 4 of the Airport Authorities (Airport Companies Information Disclosure) Regulations 1999 and that are required to be audited:
  - comply with Regulation 17;
  - subject to these regulations, comply with New Zealand generally accepted accounting practice; and
  - give a true and fair view of the financial position of the Company's Identified Airport Activities as at 30 June 2007 and the results of its operation and cash flows for the year ended on that date, and of the matters disclosed in accordance with the Schedule to the regulations.

Our audit was completed on 20 November 2007 and our unqualified opinion is expressed as at that date.

Deloitte

Chartered Accountants
Auckland, New Zealand