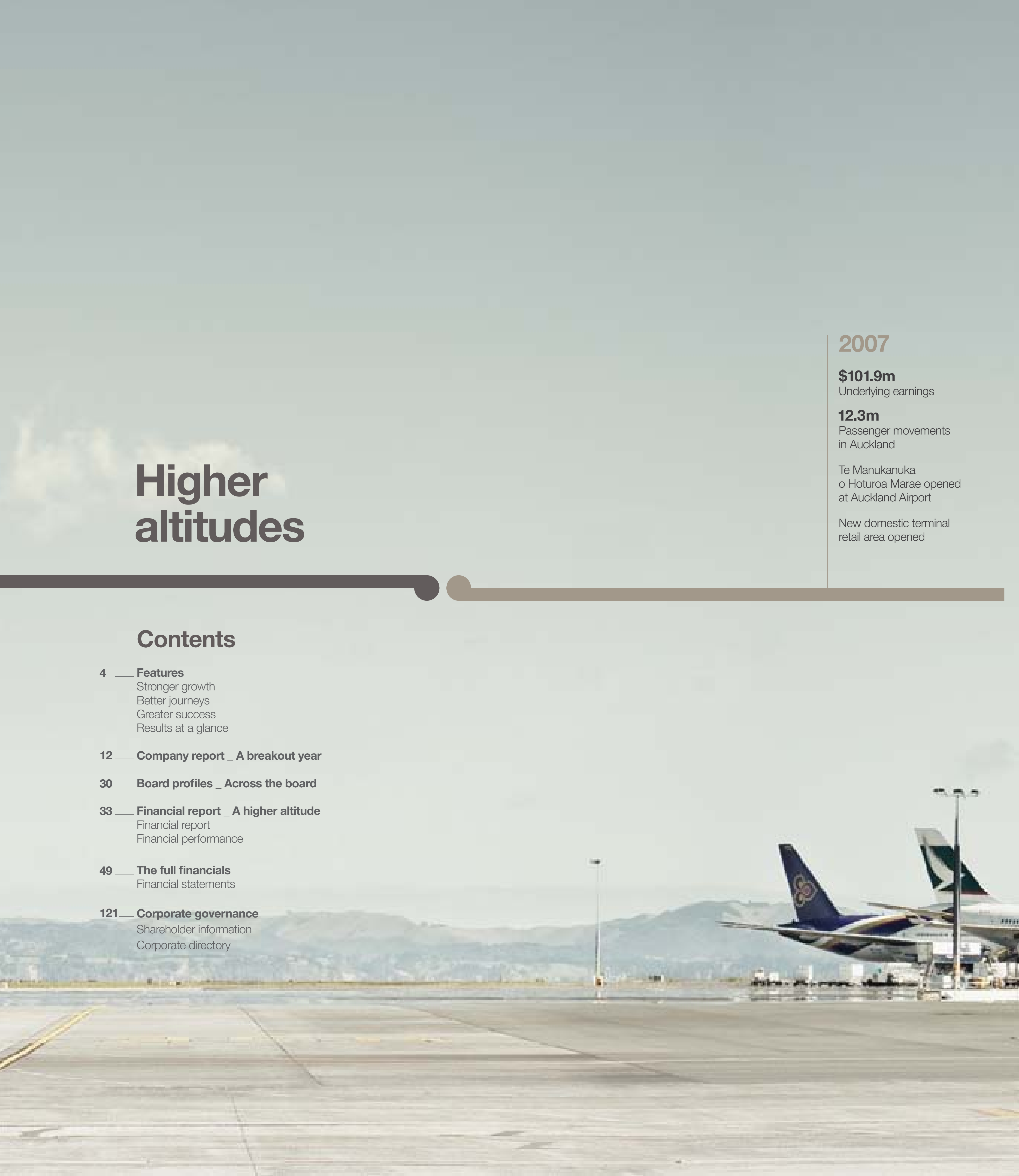
# New horizons

Auckland Airport
**Annual Review 2011**

Auckland Airport



# Higher altitudes

## 2007

**$101.9m**
Underlying earnings

**12.3m**
Passenger movements in Auckland

Te Manukanuka o Hoturoa Marae opened at Auckland Airport

New domestic terminal retail area opened

## Contents

## 2008

**$103.7m**
Underlying earnings

**13.2m**
Passenger movements in Auckland

Domestic terminal refurbished

Removal of international departure fee

## 2009

**$105.9m**
Underlying earnings

**13.0m**
Passenger movements in Auckland

Voted tenth best airport in world in Skytrax Awards

New international pier opened

## 2010

**$105.1m**
Underlying earnings

**13.4m**
Passenger movements in Auckland

Voted ninth best airport in the world in Skytrax Awards

Formed alliance with North Queensland Airports

More than 850,000 extra international seats added

Asia clearly emerging as main driver of global travel demand

## 2011

**$120.9m**
Underlying earnings

**13.8m**
Passenger movements in Auckland

Formed alliance with Queenstown Airport

Strong growth in Queenstown Airport and North Queensland Airports passenger volumes

Voted eighth best airport in the world in Skytrax Awards

New Novotel Auckland Airport opened as part of expanding property portfolio

International departures area revamp completed and retail performing well

More air connections with Asia, in particular China, opened up

# Stronger growth

**We're growing the New Zealand economy**

Our outstanding work in growing air services means we are now delivering over 350,000 extra visitors into the New Zealand visitor economy

**We're growing Auckland**

Our Airport Business District is attracting many high-quality businesses and amenities, we are transporting millions of dollars of high-value airfreight each year and we are directly or indirectly facilitating around a quarter of the total GDP of the entire Auckland regional economy

**We're growing connections**

We now provide more air connections and destination choices between New Zealand and overseas markets than ever before, particularly with Asia, the world's growth engine

**We're growing service choices for travellers and business**

With the new international departures shopping experience complete, two new airport hotels opened, a surge of new property developments completed or near completion and a much wider range of parking options including booking online, there are now many more choices of products and services

**We're determined**

We are determined to play our part in growing travel, trade and tourism for the markets we serve

# **Better** journeys

**We're committed to making journeys better**

In the 2011 global Skytrax Awards, voted on by over 11 million people, we were awarded the best airport in Australia/Pacific for the third year in a row and voted eighth best airport in the world, up from ninth in 2010 and tenth in 2009; that's a journey shareholders can be proud of

**We have a smarter airport**

There's been the introduction and expansion of SmartGate and the roll-out of many LEAN Six Sigma-led initiatives to help make processing more efficient than ever, we've expanded the aviation security processing space and we've worked with MAF Biosecurity on their transition to more risk-based biosecurity screening

**We're improving the passenger experience**

We've recognised that the existing domestic terminal is coming to the end of its useful life and we're busy forging a future long-term pathway for the development of an integrated terminal, supported by a second runway that, when finished, will provide an even better passenger experience for domestic and international travellers

**We're a key part of the tourism journey**

We're not just the first and last impression of New Zealand, we are a major player in the support and promotion of New Zealand tourism. We have a big role to play in developing air services and travel choices, and our ambition to grow the number and value of visitors is good not just for us, it's good for tourism and for New Zealand

**We're taking our community on a journey**

We've continued a wide range of positive community initiatives, including a comprehensive sustainability programme, a number of long-term sponsorships and the good works of our Auckland Airport Community Trust

# Greater success

**Our airline partners are successful**

We have some new airline friends, including some of the biggest airlines in the world in China Southern and Continental; we have ambitious airline partners such as Jetstar, which is growing fast, and our home airline partner Air New Zealand has continued to show its world-class service, adaptability, innovation and ability to compete on the world stage. It's all part of a successful airline partner mix

**We've had a successful financial year**

We have a resilient business and, despite the tough times and natural events and disasters such as the Christchurch earthquakes, we've made sure that revenue growth has outstripped cost growth

**We have successful airport partners**

Our partnerships with Queenstown Airport and North Queensland Airports are going well, and their passenger growth has been even more outstanding than that of Auckland

**We have successful relationships with Government**

We've had important support from the Government on a wide range of fronts that has made it possible for us to deliver greater success for New Zealand and we're working well with the Auckland Council. We have also had a great deal of success working alongside Tourism New Zealand and the rest of the industry

**We've had more success with investors**

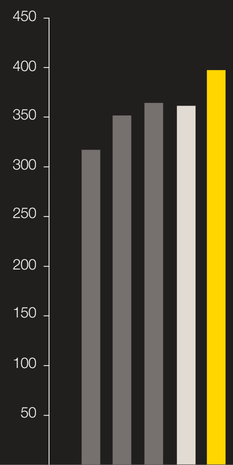
More and more investors understand our strategy and can see the results that we are delivering

**We're far from finished**

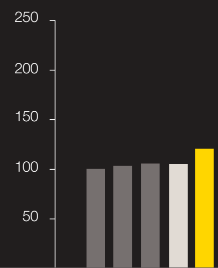
Our vision is to become a great New Zealand business which is recognised as a world leader in creating value from modern airports

# Results at a glance

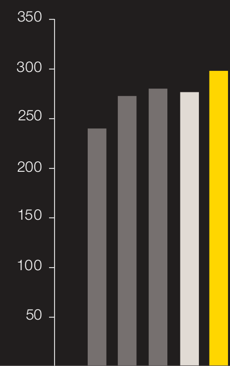
**Revenue**
$397.723 million
up 9.5%



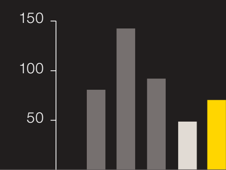

**Underlying profit**
$120.870 million
up 15.1%




**Operating EBITDAFI**
$298.229 million
up 7.9%




**Capital expenditure**
$74.774 million
up 37.7%




# Highlights 2011

International passenger movements **up 4.9%**
**7,781,819**

Strong customer satisfaction **top 10 in the world**
for third year running in Skytrax Awards

Major revamp of international departures completed

Queenstown international passenger growth up
**49.7%**

★★★★
4-star-plus, 263 rooms Novotel Auckland Airport completed in time for Rugby World Cup 2011

**72%**
of all international visitors to New Zealand arrive or depart from **Auckland**

Profit after tax
**up 239.3%**
**$100.761m**

**So many awards...**

Supreme winner Red Retail Design Awards 2011

Excellence Award at Property Council Rider Levett Bucknall Awards 2011

Skytrax Best Airport Australia/Pacific 2011

Frost and Sullivan Best Practices Award

Won Collaboration in Communities category at Robin Hood Awards for the Auckland Airport/Leukaemia & Blood Foundation/ Sky Tower partnership

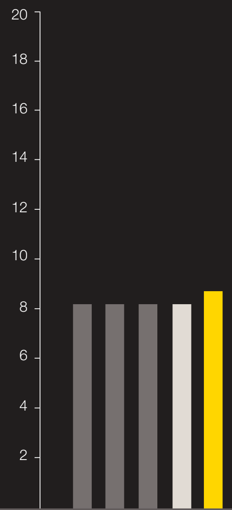
2011 Australasian Reporting Awards – Silver

Charles Spillane awarded Corporate Lawyers Association of New Zealand In-house Lawyer of the Year

EarthCheck's Silver status

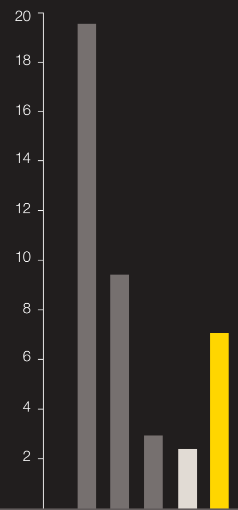
**Ordinary dividends**

8.70 cents
up 6.1%



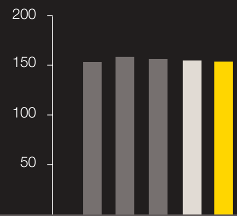

**Earnings per share**

7.65 cents
up 224.2%



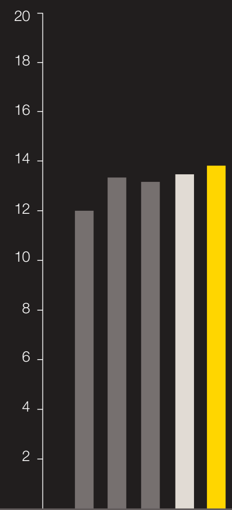

**Aircraft movements**

154,290
down 0.4%



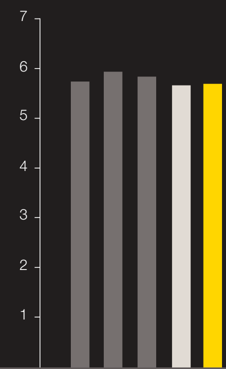

**Passenger movements**

13.824 million
up 2.8%




**MCTOW**

5,690,552 tonnes
up 0.4%




# **Big dreams** for Auckland Airport…

They definitely aren't a guide to the market for the 2012 year, but we do have some longer-term aspirations which we've been setting over the years since we first outlined our growth strategy in 2009 – our big dreams if you like. While it will be extremely challenging to achieve even some of them, they do help us to keep our eyes on the far horizon.

**Grow total earnings**

We are committed to work together to try and unlock the potential value in our airport businesses to grow total earnings above $150 million in FY13.

Base year FY10 earnings: $105.1 million

Earnings in FY11: $120.9 million

**Increase passenger numbers**

With international passengers our biggest value driver we aim to grow international passenger numbers (excluding transit passengers) an additional two million movements by FY14.

Base year FY09 passenger movements: 6.4 million

Passenger movements in FY11: 6.8 million

**Grow Chinese and Indian arrivals**

We seek to double Chinese arrivals by FY16 and increase Indian arrivals 50% by FY14.

Base year FY10 arrivals: China 101,000; India 26,000

Arrivals in FY11: China 128,000; India 30,000

**Develop property**

We want to develop the property business so that the committed rent-roll on property developments built or under construction outside of the terminals is more than $50 million by FY14.

Base year FY09 rent-roll: $30 million

Rent-roll as at 30 June 2011: $37 million

**Expand our retail offering**

We want to develop the products and services that passengers want to buy so as to grow our retail business revenue to $170 million by FY13.

Base year FY10 revenue: $132 million

Revenue in FY11: $152 million

**Stay number one**

We know that our business depends on the passenger experience, so we are committed to remaining the number one airport in Australia/Pacific as rated by passengers in the Skytrax World Airports survey.

Base year FY09 ranking: Number one

Ranking in FY11: Number one

**Integrate domestic and international**

If the time is right, we hope to have industry agreement by the end of FY12 on a pathway towards a dual runway and integrated domestic and international terminal including a price path to support this investment.

Joan Withers
Chair

Simon Moutter
Chief executive

# A breakout year for **Auckland Airport**

Welcome to our company report for the financial year to 30 June 2011. Despite the destructive natural events and the global financial challenges that have buffeted travel and tourism this year, it has been an excellent 12 month period for Auckland Airport.

Our emphasis on directional clarity, bold strategies and strong execution is now paying off.

In recent years, we have refocused the business from an infrastructure builder to a sales-led driver of growth. That has meant shifting resources, growing skills in new areas and closing capability gaps in the organisation. Now the benefits are flowing through all parts of our business and into the tourism industry as a whole.

We have broken out of a period of relatively flat profitability, delivering for the 2011 financial year a 15.1 percent increase in underlying profit to $120.870 million, which has also been reflected by an increase in dividends. One of the key drivers of this is growth in passenger volumes, which is now embedded into our organisational DNA.

We have a team travelling offshore regularly selling New Zealand as a destination to the world's airlines.

We have invested in three strategically located airports across New Zealand and Australia, giving us low-risk exposure to some excellent growth positions and greater opportunities to increase air connectivity.

This year's result has been built on a foundation of service excellence. This year saw Auckland Airport complete a hat trick in the global Skytrax Awards, being recognised as one of the world's ten best airports for the third year in a row (up to eighth from ninth last year). We are committed to 'Making Journeys Better' in terms of time, quality and choice for the 14 million travellers who experience the airport every year.

Over recent years, we've thought hard about how we can best use our core expertise to drive value from new growth opportunities.

**This year's result has been built on a foundation of service excellence**

We've recognised that whatever we do needs to be a good fit for us in terms of scale, synergy and alignment with our core business. Stripped down to those essential criteria, it has become clear that we are about building a great New Zealand business recognised as a world leader in creating value from modern airports. That's our vision.

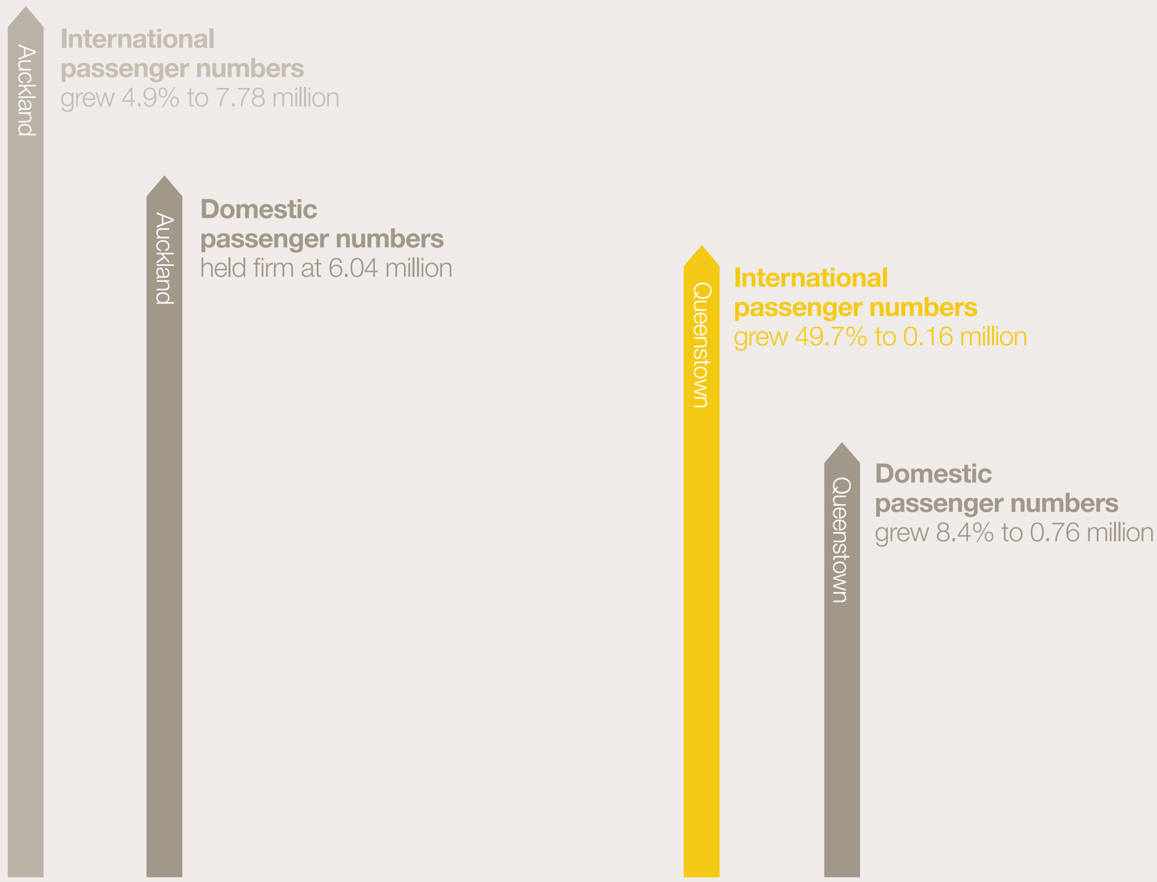
It's been a breakout year but we're far from finished. Our aim is to lock into a higher growth trajectory for a sustained period, by coat-tailing the Asian growth phenomenon and by leveraging our assets well. We're up for it. Delivering on our vision and producing high-quality results for our shareholders, for passengers and for New Zealand is a source of genuine pride for our board and all the people who work with us.

15.1%

**increase in underlying profit**

**It's been a breakout year but we're far from finished**

# The big **numbers**




## Key to the year's performance has been a belief that Auckland Airport can grow

### Passenger growth

Key to the year's performance has been a belief that Auckland Airport can grow passenger volumes more quickly than the organic growth of the market. Results in this area across all of our airports have been pleasing. We have seen particularly strong growth from Asia and from outbound New Zealand and Australian travellers.

At Auckland, international passenger numbers grew 4.9 percent to 7.78 million and domestic passenger volumes held firm at 6.04 million despite the withdrawal of Pacific Blue from the domestic market. In North Queensland, our published growth targets were surpassed with the number of international passengers through Cairns rising 20.7 percent to 0.75 million and domestic passenger numbers growing 6.1 percent to 3.18 million. Domestic traffic at Mackay increased by more than 14.3 percent to 1.04 million. At Queenstown, growth in international passenger numbers was an exceptional 49.7 percent to 0.16 million and domestic numbers grew 8.4 percent to 0.76 million. Within all of our airport investments, our core expertise is delivering value and we believe that further strong growth remains achievable.

### Natural events

Growth was impacted by several natural disasters in our part of the world (in particular the Christchurch earthquakes, Queensland floods, Cyclone Yasi in North Queensland, the Japanese tsunami and the ash cloud originating in Chile) which further delayed the anticipated recovery in economic conditions. The New Zealand travel market was also affected during the year by the withdrawal of Pacific Blue from domestic services and by global currency fluctuations.

Like everyone in New Zealand, Auckland Airport was saddened by the tragic and devastating events in Christchurch. A key management focus has been on assisting with the recovery and working with tourism partners to help mitigate the wider economic effects. This assistance has included the donation of resources, funds and information technology equipment. Other work has gone into helping maintain inbound tourism into the wider New Zealand industry so that, as infrastructure in Christchurch recovers, tourism markets can easily return there.

Because of these events, there was a modest impact on the otherwise strong visitor traffic flows through North Queensland, Queenstown and Auckland. However, we believe the overall long-term impact of these events on our business, while still difficult to quantify, is likely to be minor. The effect has been mitigated, in part, by passengers' ability to shift travel itineraries, by airlines taking up capacity and by a diverse passenger base with multiple connectivity options.

### Top-line financials

It is important to recognise the force of the underlying position of the business. Much of the strength of the underlying profit result has been achieved through an increase in total income to $397.723 million, up 9.5 percent on last year. Two of the key drivers of this revenue growth have been better than expected retail results in the new departures shopping area and a stronger yield in car parking, particularly using the new online booking channel.

Operating costs increased by 14.6 percent to $99.494 million, largely as a result of higher promotional costs related to the successful launch of several new services including China Airlines, China Southern Airlines and Jetstar to Singapore. That said, total expenses, despite the increased investment in key opportunity areas, have remained under tight management.


**International passenger numbers**
grew 20.7% to 0.75 million

**Domestic passenger numbers**
grew 14.3% to 1.04 million

Simon Robertson commenced as the Auckland Airport chief financial officer in August 2009. He is responsible for managing our corporate strategy and financial affairs. He joined us in early 2005 and has held a number of senior financial and aeronautical roles in his time with Auckland Airport. Simon has experience in senior financial roles in the manufacturing, entertainment and marine sectors, with strong financial, treasury and strategic expertise. He holds a Bachelor of Commerce from Auckland University, is a member of the Institute of Finance Professionals New Zealand and is a Chartered Accountant.

**passenger volumes faster than the organic growth of the market.**

Reflecting the strength of the results, ordinary dividends for the 2011 financial year totalled 8.7 cents per share, or $114.870 million in total, up from 8.2 cents per share. The company's dividend reinvestment plan will continue and, in addition, there is an intention to implement a share buy-back programme to match the number of shares issued under the dividend reinvestment plan.

For several years now, Auckland Airport has reported underlying profits alongside reported results. We believe an underlying profit measurement helps investors to understand what is happening in a business, such as ours, where revaluation changes can make financial results uneven between years or where one-off transactions, both positive and negative, can make the comparisons of profits between years difficult. The underlying profit also provides the basis for our determination of the dividend payment.

**Simon Robertson**
Chief financial officer

### A key economic driver

## Auckland Airport's direct and indirect contribution to economic activity is expected to increase to as much as 27% of Auckland regional GDP by 2031.

A December 2010 study has confirmed Auckland Airport's role as a key driver in economic activity in the Auckland and New Zealand economies.

The study, by consultancy firm Market Economics Ltd, says Auckland Airport's contribution to economic activity is expected to increase to as much as 27 percent of Auckland regional GDP by 2031, up from 21 percent in 2006 as estimated in an earlier study.

This economic activity will help sustain as many as 363,000 jobs, an increase from 174,000 in 2006. There is increasing attention also on the airport's 'corridor', a growth node comprising of businesses located at or near Auckland Airport.

The Airport Corridor already generates or facilitates around $3 billion of GDP annually and its contribution is expected to grow to $5 – $6 billion by 2031. It is anticipated that this growth will increase employment from a current estimate of 21,000 workers to as many as 38,000 by 2031.

The study reinforces the important role that Auckland Airport plays in helping grow New Zealand tourism and trade by improving the air services connections between New Zealand and the world.

It is important that Auckland Airport is seen not just as part of Auckland's transport infrastructure, but a key driver of Auckland's future economic prosperity and visitor economy.

# The **changing** world

### The rise of Asia

Our passenger numbers continue to reflect dramatic shifts in the global architecture of trade and economic relationships. Asian countries, and in particular China, are now driving much of the growth in global travel demand. Other powerhouse economies, such as India and Brazil, are increasingly making their presence felt internationally. If New Zealand could attract a fraction more of the phenomenal travel growth being experienced in these markets, it would have a game-changing impact on our national visitor industry.

In contrast, growth from some of the traditionally important visitor markets in North America and Europe has slowed, stalled or even reversed. Australia remains the largest and most important market for Auckland, but the strong Australian dollar has made other holiday destinations more attractive to their outbound travellers, so the competition to attract Australians here is fierce.

### An Asia-Americas connection

New Zealand does have natural advantages to call on. For instance, our unique location means that Auckland is ideally placed to capture more of the growing traffic and trade moving between South America and Asia. Already Auckland has non-stop services to ten of Asia's largest cities, all of Australia's key markets and more South American cities than does any other Asia-Pacific city. That's given us a significant head start as we look to develop this long-term opportunity.

### Importance of air services

Gaining better air connections to high-growth markets is essential for New Zealand – the link between air services and economic growth is clear. This is why we have been so focused on growing air services, particularly from the booming Asian markets. We are now investing millions of dollars each year on business development and promotional activities with our airline customers to grow and support new and existing international air services. This investment in high-potential growth markets helps drive increased international passenger volumes – our biggest business value driver by far.

This is an extremely competitive endeavour. As with free trade agreements, many countries are vying to forge favourable tourism arrangements with large or high-potential markets.

Asia is now the biggest travel market in the world and forecast to grow more quickly than will any other over the next 20 years (IATA)

## 800 million

IATA expects 800 million new travellers by 2014 (from 2009) with 360 million on Asia-Pacific routes.

## 26.2%

Strongest passenger volume growth at Auckland in the 2011 financial year was from China at 26.2 percent.

## 2020

By 2020, over 40 percent of Chinese outbound will be experienced, affluent travellers, according to the Boston Consulting Group.

## 400 million

Boston Consulting Group estimates the population of China's middle-class and affluent consumers will increase from 150 million to more than 400 million over the next decade.

## High spending visitors

According to New Zealand Government tourism research, Chinese visitors are amongst the highest spending visitors to New Zealand, spending on average more per night than any other visitor with the exception of visitors from Japan.

## 46 million

Outbound travel by Chinese residents to all markets has quadrupled to reach 46 million trips in just ten years.

## 17 million

Tourism New Zealand research indicates that there are currently just under 17 million Chinese who would be 'Active Considerers'.

## One billion

Goldman Sachs expects China to become the largest aviation market globally by 2020 and achieve one billion air passengers by 2022, up 3.5 times from 280 million passengers in 2010.

## US$4.5 billion

The New Zealand Government recently announced that New Zealand's exports to China have nearly doubled in the past two years to US$4.5 billion.

## US$1.5 million

According to the Hurun Research Institute, one in every 175 people in Shanghai has a personal wealth of over US$1.5 million.

For example, at the time of writing, Australia has around five times as many direct air service connections with China as New Zealand does.

Benchmarking ourselves against Australia may not be enough. Because of its closer proximity and higher brand awareness, Australia could well be preferred as a destination for first-time Asian visitors. New Zealand has relative disadvantages of scale and location that mean, as a country, we must work both harder and smarter to secure our share of travel growth. Policy frameworks in areas such as immigration visas, air rights and border controls must be fully aligned with market priorities.

**New Zealand Government successes**

The New Zealand Government understands these dynamics and has been focused on removing barriers to travel. There are already some outstanding successes to show for it. For example, recent improvements to visa processing in China made by the Minister of Immigration the Hon Jonathan Coleman and the Immigration Service have successfully removed one of the barriers to visitor growth from this key market and is helping to support the new China Southern Airlines' route and the increase in Air New Zealand's services to China.

In addition, the Minister of Transport the Hon Steven Joyce has asked the Ministry of Transport to begin reviewing air services agreements with China, Brazil and up to eight other countries in East Asia and South America with a view to removing impediments to growth. The Ministry of Transport is also undertaking a review of all air services arrangements, which is expected to help uncap significantly more growth potential for the visitor industry. The particular importance of the Chinese market was recognised by the Prime Minister the Rt Hon John Key personally welcoming the inaugural China Southern Airlines' flight to Auckland in April 2011.

Local government, especially His Worship the Mayor Len Brown and the new Auckland Council, has also been very supportive of initiatives to grow the visitor economy. That strong support has been influential in the growth of air services with key markets over the financial year.

This is all great news for the industry and for the New Zealand economy.

Glenn Wedlock is responsible for developing and growing new and existing commercial relationships with airline, trade and tourism customers, covering both passenger and freight activities. He joined us in January 2009. Prior to that Glenn was CEO of Southern Hemisphere Proving Grounds and Mitre Peak Cruises; he has previously worked with Infratil Airports in Europe and Christchurch International Airport. Glenn holds a Bachelor of Business Studies.

**A popular place**

## 38 million

The Airport Corridor is visited approximately 38 million times per year, by New Zealanders (staff, other Aucklanders and other New Zealanders) and international visitors

## 9 out of 10

The equivalent of nine out of ten Aucklanders visited Auckland Airport at least once in a 12 month period

## 75%

75 percent of New Zealanders visited Auckland Airport at least once in a 12 month period

## 22,000 people

There are at least 800 businesses around the airport, employing about 22,000 people, with 11,700 workers based at Auckland Airport

**Auckland Airport catchment area**

Within two hours' drive time:
**2.033 million*** people

Within four hours' drive time:
**2.322 million*** people

New Zealand population
**4.4 million***

*Approximate figures from Statistics New Zealand

**Glenn Wedlock**
General manager
aeronautical commercial

Queenstown is an example of the sort of premium destination and experience that high-value visitors are looking for

## Airline trends

The shifting global trade and tourism markets are also changing airline dynamics. Here in New Zealand, Air New Zealand has worked extensively alongside Tourism New Zealand, Auckland Airport and the rest of the tourism industry to help grow key Asian markets, including the addition of more air service connections with Japan and China.

Globally, Asia-Pacific and Middle East-based airlines make up more than half of all unfilled aircraft orders (and are carrying much of the increased traffic). It is estimated that one in ten new aircraft assembled by Boeing and Airbus will be delivered to China. For Auckland Airport and Tourism New Zealand, this means we need to focus on both the key markets and the carriers with the available aircraft to connect us with them. Put simply, we need to 'sell' New Zealand as a route destination to those airline customers who are actually in a position to buy.

Building a sustainable and balanced mix of carriers connecting with New Zealand is important. Different markets and consumers have diverse preferences that reflect the brand appeal, loyalty programmes, market reach and distribution networks of carriers operating in their market. In addition, within each market, there are different consumer segment preferences, from low cost to first class.

As we have seen with the strengthening links between Air New Zealand and Virgin Blue, and between Continental and United, airlines around the world are continuing to consolidate through ownership links or alliances. As airlines increasingly 'internationalise', the importance of the ability to respond to dynamic markets, expand airport connectivity, stimulate travel demand and gain access to larger traffic flows may become more significant than a carrier's base of operations.

### Skytrax World Airport Awards

**2011**

Eighth best airport in the world
Best airport in Australia/Pacific

**2010**

Ninth best airport in the world
Best airport in Australia/Pacific
Staff service excellence award

**2009**

Tenth best airport in the world
Best airport in the world for the friendliest staff

### Auckland in the top ten again!

Auckland Airport has been named among the best in the world again in the 2011 Skytrax World Airport Awards. The airport elevated its ranking and was voted the eighth best airport in the world and was also named as the Best Airport in the Australia/Pacific region.

The World Airport Awards enjoy the highest level of credibility amongst the world's air travellers and airports around the globe. Covering more than 240 airports worldwide, these awards are based on the results of surveys completed by more than 11 million travellers.

More than 50 awards were announced including, for the first time, awards for the Best Regional Airports, and a new category for the Best Airport Hotels around the world. Auckland Airport came ninth in last year's awards and tenth the year before, and has also held the title of Best Airport in Australia/Pacific for the past two years.


### Our airport network

Our expanded airport footprint in Auckland, Queenstown and Queensland gives us more options when talking to airlines. We can use our airport alliances to put together itineraries and connections to make each route more viable. We're now seeing the results. Air services capacity in all the airports in which we have an ownership interest has grown fast, with over 1.2 million additional international seats committed in the last two years. What's more, our industry partnerships and promotional activities are helping to fill those additional seats and make the routes more sustainable.

### High-value visitors

High-value tourism is also a key to route sustainability. There is an increasing number of travellers, from traditional and emerging markets, who are high net worth, have high spending patterns and are prepared to pay a premium for a quality, unique tourism experience. This fits perfectly with a quality tourism proposition such as that found in visitor destinations like Queenstown, Cairns and Auckland.

In May 2011, we announced a million-dollar investment into initiatives to identify and attract affluent visitors from high-value markets. Most importantly, these affluent visitors help fill the front ends of planes and thereby make air routes more profitable for airlines.

### A smarter airport

It's not just about increasing visitor numbers or spend. We are actively expanding and marketing the products and services we offer for passengers and working hard to develop a smarter airport. Alongside our airport partners, we have a key role in delivering a great passenger experience. New technologies such as SmartGate are just the tip of the iceberg in providing travellers with more control over time, more customised service and ensuring their journeys can be as smooth and painless as possible. Watch this space. We recognise that the world is changing rapidly and passengers want and expect more when travelling. We intend to meet that demand.

Simon Moutter is responsible for the overall leadership, strategic direction and executive management of Auckland Airport. Prior to joining us in 2008, he was chief operating officer at Telecom, managing most parts of the business at one time or another. This was preceded by 13 years in the electricity and gas industries.

### Auckland Airport Community Trust reaches $2 million donation milestone

With its latest round of donations, the Auckland Airport Community Trust has now achieved an impressive milestone by distributing over $2 million to worthy community projects.

The Trust, which was established in 2003, receives more than $250,000 a year from Auckland Airport and distributes the money to local Manukau organisations that are benefiting the community in the area of literacy.

Charles Spillane, general manager of corporate affairs at Auckland Airport, says it is a privilege to help local groups who are achieving such great things within the community. "Every cent of this $2 million has been distributed to an organisation that is doing wonderful work within the Manukau community. The Auckland Airport Community Trust dedicates a lot of time to determining who should receive the funding. It is fantastic to see that every donation has had a very real impact on what these organisations are achieving within the community."

Great Potentials' Otara HIPPY programme is one of the many local groups that have benefited from the Trust's funding. HIPPY Otara, which has received funding from the Trust annually since 2007, is a home-based programme that trains parents to help their preschool children with learning. HIPPY Otara has proved to be such a success that the programme recently learnt that three-quarters of its costs will now be funded by government, when previously it has received no government funding.

Jane Hall, HIPPY National Director, says, "The funding from the Auckland Airport Community Trust has played an important part in establishing and maintaining the HIPPY programme in Otara for the past three years HIPPY Otara is 100 percent focused on supporting parents and helping them to be actively involved in their children's learning. The donations we have received from the Trust have been invaluable in helping us to achieve this."

To view a list of all fund recipients or to find out how to make an application for Auckland Airport Community Trust funding, please visit www. aucklandairportcommunitytrust.org.nz

>
**Simon Moutter**
Chief executive

# The business **in more detail**

### Tourism leadership

Auckland Airport is a major player in the support and promotion of New Zealand tourism. Our interest in growing the volume and value of visitors to New Zealand aligns closely with industry and government interests – what is good for us is good for the tourism sector and the broader economy. At both central and local government levels, we are committed to working constructively on tourism and trade initiatives to drive economic growth opportunities. At an industry level, we work closely with all the major stakeholders to help develop and sustain visitor markets.

### Regulation

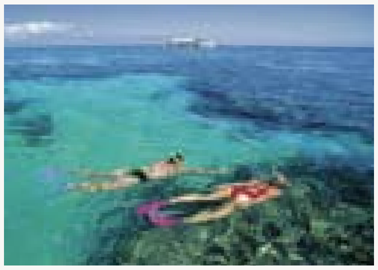
Auckland Airport is preparing for the first information disclosure reporting in May 2012. Following an appeal lodged by Air New Zealand, we, along with Wellington and Christchurch Airports, are also appealing some aspects of the Commerce Commission's input methodologies relating to asset valuation and Weighted Average Cost of Capital. We believe the primary purpose of regulation is to find the long-term balance between consumer and business interests and to ensure that there are appropriate incentives for essential investment.

### Revaluation

In the 2011 financial year, Auckland Airport revalued the company's property, plant and equipment, as well as our investment property, for financial reporting purposes. The revaluation was independent and rigorous. It is important to note that the revaluations of these different asset classes are not treated in the same way in the financial statements. The different accounting treatment required by the accounting standards makes it difficult to easily see what has changed as a result of the impact of revaluations. In this latest revaluation exercise, the value of investment property was increased by $21.64 million, up 4.1 percent. The change in the property, plant and equipment asset values, last valued in 2006, has seen an overall increase of $519.23 million, with decreases recognised in the income statement, and increases recognised in other comprehensive income. This increase in valuation represents around 3.8 percent per annum over five years.

Charles Spillane is our senior legal advisor and corporate secretary. He is also responsible for corporate communications, governance, government relations, community relations, share registry, risk management and insurance. Before joining us in 2002, Charles practised law at Russell McVeagh. He is a Fellow of the Institute of Chartered Secretaries.

**Charles Spillane**
General manager corporate affairs



**Cairns Airport is the gateway to Tropical North Queensland**

**Queenstown Airport is the gateway to some of New Zealand's most breathtaking scenery**

### The Auckland Plan

Auckland Airport is fully engaged in the Auckland City planning process. As a major and catalytic economic driver for the region, Auckland Airport has an important contribution to make towards Auckland's economic and social development. As Auckland continues to develop as a city, infrastructure will be required to support predicted growth in travel and tourism and the benefits it can deliver. Our continuing growth will also create more and better employment opportunities for Aucklanders.

### Auckland public transport

We are an advocate for improved public transport between the airport and all parts of Auckland. The region needs more public transport options, and soon. Airport users are also clear they want better public transport links, not just with the central business district but with all parts of the city as well. Determining the optimal solutions for long-term transport in the south-west Auckland area will involve central and local government and other important stakeholders. We look forward to a positive outcome to this process and we will continue to participate actively in the appropriate forums to ensure our views and those of the travelling public are considered.

Auckland Airport is also one of the parties to a study into potential rapid transit networks between the airport and the central business district. In the meantime, we are working with Auckland Council and Auckland Transport on a range of initiatives to improve public transport, for example, through the support of an increased Airbus service frequency.

### Aeronautical operations

Operationally, we want to ensure that our airports provide the quality experience demanded by passengers. The introduction of technologies and innovation to improve departures, arrivals and border processes is a continuous operation that, if done correctly, can increase the propensity to travel and boost the available capacity of the existing infrastructure. The result is an improved passenger experience and the opportunity to defer capital expenditure on new infrastructure until precisely when it's needed.

Achievements in operational processes at Auckland have continued across the terminal and airfield. These include the extension of SmartGate into international departures, continued collaboration with our airport partners on expanded LEAN Six Sigma efficiency work and the further development of 'Smart Border' initiatives. 'Smart Border' is our description for the collective group of technology and efficiency initiatives that, when completed, can effectively 'hide' the trans-Tasman border processing experience for travellers. The point is to make it as close to a domestic journey as possible, while preserving sovereign border integrity in terms of immigration, customs and biosecurity needs and the opportunity to purchase duty free goods.

In Queenstown, major projects completed or under way include a new state-of-the-art baggage handling area, extensions to the international terminal, construction of runway end safety areas, new jet blast fence, new jet hard stands, new runway lights and a taxiway. In Cairns and Mackay, there has been significant investment made into upgrading terminal infrastructure, including the completion of a new $200 million domestic terminal at Cairns.

### Spreading our wings

**24.9%**
stake in Queenstown Airport

**24.5%**
stake in North Queensland Airports

#### Queenstown Airport

Gateway to New Zealand's adventure capital, a major international tourist destination and the fourth largest international airport in New Zealand.

Is the fastest-growing airport in New Zealand and is pivotal to the tourism growth aspirations and future of the region. Also has a significant domestic visitor market.

Over the past five years, international passenger volumes have quadrupled and domestic passenger volumes have increased by 22 percent. In the 12 months ended 30 June 2011, the airport had 811,464 passenger movements (international 107,572 and domestic 703,892).

#### Cairns Airport

Gateway to Tropical North Queensland.

Two World Heritage-listed attractions, the Great Barrier Reef and Wet Tropics Rainforests, are accessed from Cairns.

The closest airport on Australia's east coast to a number of rapidly growing Asian markets.

The airport has direct flights to all Australian capital cities with the exception of Hobart and a high number of regional destinations are also serviced from Cairns.

A major AU$200 million redevelopment of the domestic terminal was completed in December 2010.

#### Mackay Airport

An important regional airport, benefiting from the strong resources industry and located close to the Whitsunday Islands.

Access point to Bowen Basin, one of the largest coal-mining regions in the world containing over 70 percent of known coal reserves in Queensland.

Has a main runway (1,981 metres) and a smaller cross runway (1,344 metres) for general aviation.

### Auckland domestic terminal and northern runway

One of our big challenges ahead is in achieving the correct timing and solution for an eventual new passenger terminal facility to be integrated with the international terminal and for the recommencement of the northern runway construction. A second runway to the north and parallel to the existing runway has long been central to the Auckland Airport masterplan. This will be essential to cope with forecasted long-term tourism and trade growth. Construction work on the northern runway commenced in 2007, and was paused in 2009 to maximise the capacity optimisation of the existing runway and better match timing of delivery with demand that had been slowed by the global economic downturn.

There are many variables at play here. Work on masterplanning initiatives is under way to test our terminal and runway plans and we are engaged with our key airline partners to find the best pathway forward. While we have a responsibility to New Zealand to ensure long-term infrastructure capacity for predicted growth is in place, we must also carefully balance supply with demand to optimise the efficiency of existing infrastructure and to ensure we do not deliver excess capacity too far ahead of need. The most pressing current challenge to solve is demand-driven capacity constraints at the domestic terminal. The existing domestic terminal was built many decades ago, in a very different aviation environment.

Today, growing demand, serviced by larger A320 aircraft and faster passenger processing capabilities, means that the existing domestic terminal is reaching the end of its useful life.

We are working hard and constructively towards a solution with our airline partners. The key is to balance shorter-term operational and passenger service requirements with a longer-term plan for an integrated terminal. Given the length of the lead times required for delivery of major aeronautical infrastructure, a pathway to a longer-term solution will be needed sooner rather than later.

### Auckland people and community

For the second year in a row, a successful 'health and well-being week' was held, encouraging a healthier workplace and helping staff to develop skills to manage their work-and-life balance. We are pleased to also report an outstanding achievement of zero lost-time injuries for the whole company.

Other airport community initiatives include a company-wide leadership development programme that is deepening our leadership skill base and providing for succession within the team. We have also continued our extensive corporate social responsibility initiatives, with ongoing educational, tourism and health-related sponsorships, an extensive programme of noise mitigation activities and a long-running enterprise-wide sustainability programme.


**Health and well-being initiatives pay off**

### Health and safety at Auckland Airport

## 12 months LTI free for the first time

The dramatic improvement trend seen in recent years has proved to be sustainable in FY11. Auckland Airport's key health and safety performance indicator is Lost-time Injury Frequency Rate (LTIFR). The airport maintained its positive trend in safety performance by recording 12 LTI-free months for the first time. This result was again highlighted by our Airport Emergency Services continuing to achieve fantastic results by reaching 24 months with no lost-time injuries.

Over the past 12 months, significant focus has gone into improving communication and relationships with our contractors and airport stakeholders to improve near-miss and hazard reporting. Other key focus areas have been the successful and ongoing development of health and well-being initiatives within the business for our staff and the review and improvement of our Permit to Work processes and activities.

Civil Aviation Authority (CAA) audits (for security and safety) were again passed with flying colours, resulting in continual improvement of our already excellent CAA risk rating.

We also continue to maintain Tertiary-level status in the Accident Compensation Corporation (ACC) Work Safety Management Practices programme – this provides a 20 percent discount to our ACC premiums. In addition, Auckland Airport has received an 18.74 percent discount on ACC premiums for good safety performance based on the new ACC experience rating process.

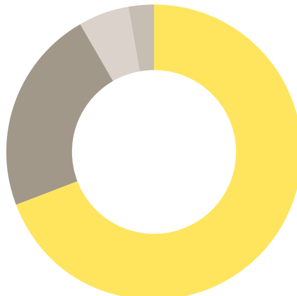
**Auckland aeronautical business development**

International passenger volumes are the most significant value driver for our airports. Through our business development activities, we aim to influence the shape of travel markets to open up growth opportunities more quickly than would otherwise occur. Our air services development work, with its focus on Asia, is gaining momentum. Notable successes include the introduction of China Southern Airlines, the expansion of Air New Zealand services on some key Asian routes, a new Taipei service with China Airlines, the launch of a long-haul Jetstar route to Singapore and many expanded services with existing airlines such as Air New Zealand, Jetstar, Emirates, Malaysia Airlines and Thai Airways. We believe there are many other opportunities to grow passenger volumes more rapidly than the organic rate.

We are investing further resources into delivering superior passenger growth outcomes from a number of key markets. We also recognise that not all airlines have the same growth ambitions, risk appetite or business model. This means that a one-size-fits-all approach to commercial arrangements limits how our airline partnerships can be grown. We are therefore looking to approach things a little differently – we will engage with any airline that has a desire to have an individual commercial relationship.

**72%**

of all international arrivals to New Zealand are at Auckland Airport



Auckland 72%
Christchurch 18%
Wellington 7%
Other 3%

Judy Nicholl is responsible for aeronautical operations and the delivery of the passenger experience promise at Auckland Airport. This includes the maintenance of airport and terminal building facilities. She is also responsible for developing and implementing Human Resource initiatives that drive the business forward. These include systems and processes to support the delivery of high-performance outcomes. Judy joined us in 2006 and has a diverse background in operations and HR within both the public and private sectors.

**Wildlife management science in action**

The risk of bird strikes is set to take a plunge at Auckland Airport after the introduction of a special grass called Jackal.

Developed by AgReseach scientist Chris Pennell, the grass contains a natural fungus or endophyte that produces chemicals harmless to birds but which make them feel sick when they consume the grass.

The endophytic grass also reduces insect numbers, making areas where it is growing less attractive to insect-feeding birds.

Since April 2011, about 27 hectares of the grass has been sown on the southern side of the runway and early results have been positive.

Peter Robinson, Auckland Airport grounds and wildlife hazards management planner, says staff can see from their twice-daily bird counts that fewer birds are visiting the area where the grass has been planted.

He says continued monitoring will help establish a link between reduced bird numbers and fewer bird strikes.

"It's a great trial from a scientific perspective because we have such a long history of baseline data. Sowing grass on an active airfield and monitoring it is a big unknown, but I'm expecting a really positive result as far as reducing the risk of bird strikes goes."

>
**Judy Nicholl**
General manager aeronautical operations

## Satisfy your Zarbo cravings

Next time you head off on an overseas adventure, stop in at the new Zarbo Café and Bar for your last fix of great local food and beverages.

Now open in the international departures area, the gourmet store offers travellers the wide selection of fantastic food that the Zarbo Newmarket store has been serving for the past 16 years.

The airport's Zarbo also includes extra features such as a delicious selection of traditional made-to-order Italian-inspired pizzas and a dedicated bar serving quality New Zealand wines, beers and spirits.

Anyone who is passionate about food will be drawn to the new culinary hamlet being established at Auckland Airport.

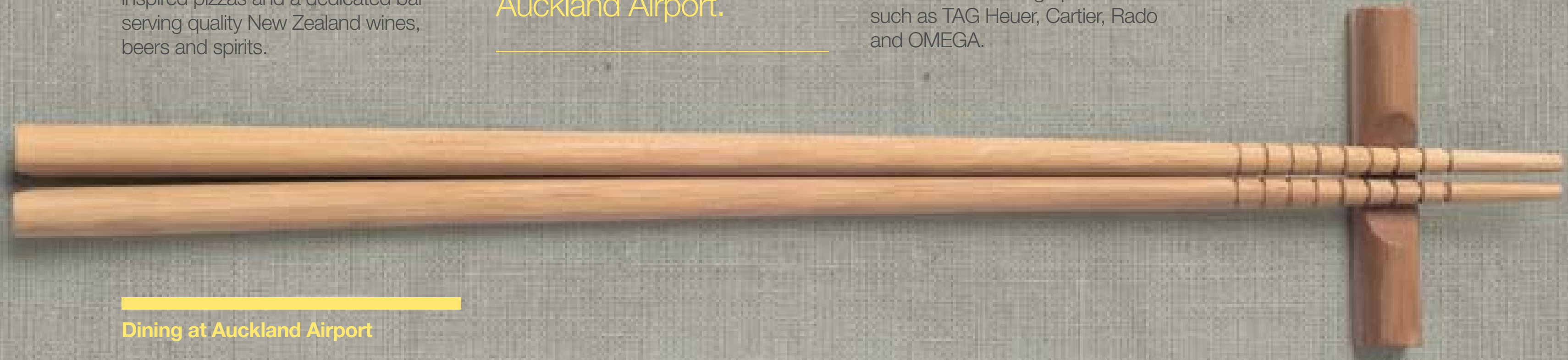
## Time is of the essence

There is really no excuse for not knowing the time after you've been through duty free at Auckland Airport.

That's because there is now an extensive selection of quality timepieces on offer in the newly refurbished shopping area in the international terminal.

The new Swatch kiosk stocks a variety of funky watches and jewellery including their Originals, Skin and Swatch Bijoux collections.

Meanwhile, JR Duty Free's new luxury watch boutique has a fantastic array of watches including upmarket brands such as TAG Heuer, Cartier, Rado and OMEGA.



## Dining at Auckland Airport

**Two new additions to Auckland Airport include Zarbo Café and Bar and Mac's Down Under**

### Mac's Down Under

A great selection of gourmet food and refreshing beverages. This new bar and café has several different seating zones including multiple areas in which to watch live sport on big screens.

### Café Espresso

Enjoy a selection of gourmet food and delicious beverages at the airport's Café Espresso.

### Sushi Bar Hayama

Sushi Bar Hayama specialises in Japanese cuisine, including sushi and soups made in full view of customers.

### Silk Road

The Silk Road menu includes an authentic range of Chinese, Thai and Indian flavours, offering a culinary taste of different parts of Asia.

### Subway

Sandwiches, wraps and salads are made while you select the fillings of your choice.

### Tank Juice Bar

As a New Zealand-owned outlet, Tank serves a range of fresh fruit juices and smoothies, made while you wait.

### Bookmarque

This airside bookshop combines great reading and coffee. With Allpress coffee and high quality books, it is a hit with customers.

### McDonald's

For passengers who want a fast meal and to enjoy something they are familiar with.

### Burger King

Fast and tasty meals that offer great value for money.

### Valentino's Gelato

Auckland's favourite gelato shop.

**Retail's major selling points**

Up 16%

Retail revenue up 16.0% to $111.150 million, well ahead of our aspirational target of $105.000 million

16,000

Over 16,000sqm of shopping space across both terminals

100 outlets

Over 100 retail outlets – duty free, foreign exchange, food and beverage, and specialty stores

## Auckland retail and commercial

During the 2011 financial year, the retail focus has been on completing the development of a high-quality retail environment, and on setting strong operational and commercial foundations. Now that we have a stable environment and foundation in place, our focus has shifted to working with our partners to deliver even stronger retail performance and passenger satisfaction.

The completion of the international departures retail area in December 2010 was a significant milestone, with its centrepiece of 'Pou Manawa', a large fabric tree lit from within by projectors that forms the heart of the space. This award-winning retail environment is unmistakably New Zealand in origin. Supporting the area has been a large number of new retail offers reflecting high-quality international and local brands and providing significant choice for passengers.

The strong retail growth experienced in the current year largely reflects this new passenger experience in international departures, with retail revenue up 16.0 percent to $111.150 million, well ahead of our aspirational target of $105.000 million. We are investing in further retail reporting and management tools which will provide valuable data to retailers and will help drive performance.

Our parking business has also benefited significantly from investment in product choice and marketing. The new online booking channel in particular has been a huge success, increasing utilisation and allowing more dynamic and targeted promotions – and resulting in our parking areas carrying a sold-out sign several times.

With parking near Auckland Airport becoming more and more competitive, we are pleased with the wide range of parking products from low-cost to high-value options that we now offer to meet different market needs.

Adrian Littlewood is responsible for all of our car-parking, advertising and retail businesses, including duty free, specialty retail and food and beverage. He is also responsible for passenger experience, brand and marketing activities. Adrian joined us in February 2009 from Telecom, where his most recent roles were in the mass-market retail business working in a range of corporate strategy, marketing and product management roles. Prior to Telecom, he worked as a management consultant in the UK and also as a commercial lawyer in both the UK and New Zealand. Adrian holds a BA/LLB from The University of Auckland.


^
**Adrian Littlewood**
General manager retail and commercial

**World-class and iconic New Zealand brands at tax and duty free prices**

**New online parking channel a hit**

Award-winning

**Supreme winner Red Retail Design Awards 2011 for airport airside departures projects**

**Excellence award for Retail Property in the New Zealand Property Council Awards 2011**

**Auckland property**

Today, nearly every single industry in New Zealand is reliant in some way on aviation transport and the need for ease and speed of delivery. A city's ability to participate in the global economy and successfully compete with other cities requires that the city and its airport be cohesively integrated. These factors make Auckland Airport a magnet for business activity.

Auckland Airport now has a compelling commercial property vision. The Auckland Airport Business District is an attractive business location based around the ever-increasing importance of one of New Zealand's largest growth engines.

We have developments under way or just finished in accommodation, industrial and office segments.

The new Novotel Auckland Airport, opened by the Prime Minister the Rt Hon John Key and King Tuheitia Paki in a dawn ceremony in May 2011, is performing ahead of expectations. Other completed projects include a new Mercedes parts warehouse and a training centre for tourism and travel education purposes. The coming year will see the completion of a number of new developments, including another Accor-operated hotel (Formule 1), a food innovation centre, a function centre, and much more.

## Flexibility

Flexible options for design, expansion and lease structures

## Security

Not just a secure environment, but a robust utilities network as well as the security of a well capitalised and financially stable owner

## Proximity

Excellent proximity to the city, the region, the country and the world

## 443 hectares

of land available for property development

## Amenity

Great amenities on-site with more to come

## Success

Significant property development has taken place over the past year with several new industrial sites completed and a function centre and office building under way

## Accessible

54% of Auckland's workforce is within a 30 minute commute to the airport

Photography by Simon Devitt.

**Novotel Auckland Airport is performing ahead of expectations**

**263 elegant rooms and suites and ten meeting rooms**

**Theatre-style conference centre**

**A restaurant and bar, plus fully equipped gym**

## Novotel Auckland Airport opens with a blessing

Some of the guests were confused by the time on the invite – but the start time of 6.30am was no mistake.

Novotel Auckland Airport was officially opened by Māori King Tuheitia Paki bright and early in the morning on 27 May 2011.

Three busloads of Tainui people, including kaumatua, a waka taua contingent and a brass band, travelled to Auckland for the event, leaving Turangawaewae Marae at 4.30am to make it on time.

Accor's director of marketing for New Zealand and Fiji Lucy Acott says the early start time came about because of Māori protocol, with Tainui performing a blessing on the hotel before any of the rooms could be rented.

More than 200 guests attended the two-hour ceremony, which included Prime Minister the Rt Hon John Key, who unveiled a sculpture, and Auckland Mayor Len Brown, along with other dignitaries.

The hotel, which was started around Christmas 2009, was designed to reflect New Zealand.

Accor Asia-Pacific general manager Paul Columbus says it promotes the diversity of the country's people and natural environment and offers an outstanding array of facilities. "Visitors will gain insight into the unique qualities of New Zealand in rooms and conference facilities that reflect a real Kiwi flavour."

**Novotel Auckland Airport was officially opened by Prime Minister the Rt Hon John Key and Māori King Tuheitia Paki**

Peter Alexander is responsible for our investment property portfolio, including the management of existing assets and driving new property developments. He joined us in 2008 and has over 20 years' experience in investment management including property investment and development in New Zealand and offshore. Peter holds a Bachelor of Property degree.

**Governance**

Throughout the year, the board has focused on ensuring that best practice standards of governance are met, that management is delivering on performance and value creation targets, and that relationships with key stakeholders are strengthened.

At the annual meeting in October 2010, Joan Withers replaced Tony Frankham as chair. Tony had served Auckland Airport and New Zealand tourism with distinction for many years. The board also recruited the former chief executive of Virgin Blue, Brett Godfrey, during the financial year. With air services so important to the business, Brett's strong aviation and airline background has made him an ideal addition to the team.

As well as the creation of value, the board has placed a particular emphasis during the year on the oversight of risk management. The importance of risk management and business continuity planning has been starkly demonstrated to all during the Christchurch earthquakes. As a key step, the board and management conducted a workshop to review and assess risk in all areas of the business. This has helped the audit and risk committee and management to prioritise its risk management activities.

Over the year, the company has also increased the level of risk management preparedness by conducting a number of crisis incident scenarios. These have tested the response preparedness of all airport agencies.

This testing has improved the robustness of our planning and approach to risk management at Auckland Airport.

The board has also focused on ensuring we deliver best practice in terms of remuneration reporting. To this end, the remuneration elements of the corporate governance section of the annual report, and the relevant notes to the financial statements, have been reviewed and redrafted to provide shareholders with a greater insight into the company's approach to remuneration.

>

**Peter Alexander**
General manager property

**Silver sustainability**

Auckland Airport is leading the way when it comes to sustainability. It is now the second airport in the world – after Kuala Lumpur – to achieve EarthCheck's Silver certificate.

Auckland Airport signed up to EarthCheck, a global sustainable tourism certification scheme, in March last year. Efforts to minimise waste, conserve water and use energy efficiently, as well as benchmarking reports and on-site audits, saw the airport move from Bronze status to Silver in December.

"It's an excellent result," says Martin Fryer, the airport's sustainability advisor.

He says Auckland Airport has taken the approach that sustainability should be part and parcel of how the airport operates as a business. "It's not an add-on and certainly not just another word for environmental management.

"Having gone through the audit process, I'm convinced that EarthCheck is the right choice for any tourism business which understands that sustainability is about their social, economic and environmental performance and is a long-term commitment."

"EarthCheck is the right choice for any tourism business which understands that sustainability is about their social, economic and environmental performance"

**Martin Fryer**
Auckland Airport sustainability advisor

Our aim for the Rugby World Cup 2011 has been to display the best possible airport experience we can and ensure that the first and last impressions of New Zealand for the estimated 85,000 visitors are part of a fantastic tournament experience.

### Looking ahead

The 2012 financial year is going to be another significant 12 month period for Auckland Airport. We intend to develop, alongside our airline partners, a clear pathway for uncapping long-term visitor growth potential. This will involve resolving some of the timing challenges for the delivery of a better domestic terminal and for the northern runway. It will also involve the development of better commercial frameworks to meet individual airline needs and the support of airline growth ambitions on new or expanded air services.

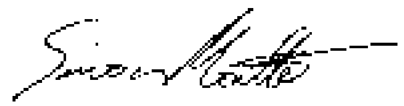
Our aim for the Rugby World Cup 2011 has been to display the best possible airport experience we can and ensure that the first and last impressions of New Zealand for the estimated 85,000 visitors are part of a fantastic tournament experience for each player, official and fan – win, lose or draw. Just as importantly, we have viewed the event as an important opportunity to deliver enduring benefit in the global marketing of New Zealand as a destination.

### Guidance

The board is striving to achieve a successful 2012 financial year and expects net profit after tax (excluding any fair value changes and other one-off items) to be in the $130 million's. We note with particular caution any potential long-term implications from the existing volatility in global financial markets. As always, therefore, this guidance is subject to any material adverse events, significant one-off expenses, non-cash fair value changes to property and further deterioration due to the global market conditions or other unforeseeable circumstances.

^

**Joan Withers** Chair



^

**Simon Moutter** Chief executive

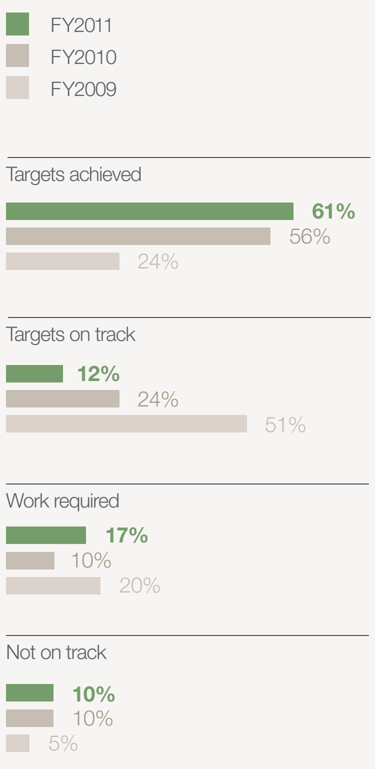
### Sustainability headline indicators

As Auckland Airport nears the end of its first five-year sustainability action plan, we can quietly reflect on some very impressive results. Our approach to sustainability has been across social, economic and environmental dimensions, it has met global certification standards and, most importantly, it has been built from the ground up and is embedded into the organisation.

In looking at our sustainability targets set in 2008, we are proud to say that we have achieved an impressive 61 percent of our targets, with another 12 percent on track to be completed before the end of FY12.

**For more information, see www.aucklandairport.co.nz/social-responsibility**

**Auckland Airport SEE performance summary 2009 to 2011**




Mary-Anne Powell provides executive assistance to the CEO and manages the corporate office. She joined us in 2008 and has over 20 years' experience in executive assistance and office management.
Prior to joining us she held senior EA roles with Telecom, Progressive, Air New Zealand and the Auckland District Health Board.

>

**Mary-Anne Powell**
Executive assistant to CEO and office manager


# Across the board

Throughout the year, the board has focused on ensuring that best practice standards of governance are met, that management is delivering on performance and value creation targets, and that relationships with key stakeholders are strengthened.


05
06
07
08

## 05

**Joan Withers (Chair)**
**MBA, AFInstD**

Joan Withers was appointed a director of the company in 1997 and became chair on 28 October 2010. She has spent over 25 years working in the media industry holding CEO positions in both newspaper and radio, and has been a professional director for 14 years. In July 2005, Joan became chief executive officer of Fairfax New Zealand Limited, New Zealand's largest media company, a role from which she retired on 30 June 2009. She is also chair of Mighty River Power Limited, deputy chair of TVNZ Limited, a member of the Treasury Advisory Board and a trustee of the Tindall Foundation and the Louise Perkins Foundation.

## 01

**Sir Henry van der Heyden**
**KNZM, BE (Hons)**

Sir Henry van der Heyden was appointed a director of Auckland Airport in September 2009. He has been chair of Fonterra Co-operative Group since September 2002. As a founding director of the Co-operative, Sir Henry has contributed to industry governance for nearly 20 years, both as a director and chairman. This included leading New Zealand Dairy Group through the process which ultimately saw Fonterra formed in 2001 and subsequent innovations in governance such as the formation of a shareholders' council. Awarded New Zealand Herald Business Person of the Year in 2007, he was honoured with a Distinguished Companion of the New Zealand Order of Merit in 2009 in recognition of his extensive services to agriculture. In addition to directing family interests in dairy farming in the Waikato and Chile, Sir Henry is a director of Independent Egg Producers, Elevation Capital, Manuka SA and Pascaro. He is a member of Rabobank's Food Agribusiness Advisory Board of Australia, director Remuneration Committee, ZESPRI International and New Zealand International Business Forum.

## 02

**James Miller**
**BCom, FCA**

James Miller was appointed to the Auckland Airport board in September 2009. He has spent 14 years working in the share broking industry. During this time, James has specialised in the strategy and valuation of airport and utility companies. Specifically, he had a leading role in the valuation and global pre-marketing of Auckland International Airport, Beijing Capital International Airport, Contact Energy and Vector initial public offers. James is a qualified chartered accountant and is a Fellow of the Institute of Chartered Accountants of New Zealand, a Certified Securities Analyst Professional, a member of the Institute of Directors and is a graduate of the Advanced Management Program, Harvard Business School (USA). He was previously on the ABN AMRO Securities Board, INFINZ Board and the Financial Reporting Standards Board.

James is a member of the Financial Markets Authority and a director of Vector and the New Zealand Stock Exchange. He is also chair of listed investment companies Barramundi Limited, Kingfish Limited and Marlin Global Limited.

## 03

**Lloyd Morrison**
**LLB (Hons)**

Lloyd Morrison was appointed a director of the company in November 2007. He is one of New Zealand's most experienced infrastructure investors and managers. Lloyd founded NZX-listed Infratil in 1994 to invest in infrastructure companies in New Zealand and internationally. Infratil has been one of the NZX's top-performing companies since its formation, and today owns businesses in the airport, renewable generation, energy retailing, waste to energy and public transport sectors. He is managing director of Infratil, chair of HRL Morrison & Co which, in addition to Infratil, manages infrastructure investments for the New Zealand Superannuation Fund, chair of Infratil Airports Europe and a director of TrustPower. In respect of airport companies, Lloyd has board experience with airport companies in New Zealand, Australia, the USA, UK and Continental Europe.

## 04

**Brett Godfrey**
**BCom, ACA**

Brett Godfrey has had a 20 year career in aviation, initially holding finance positions in small airlines, then moving to flag carriers and culminating in establishing and leading the Virgin Blue Airlines Group. He conceptualised, established and led Virgin Blue, Australia's second largest airline, as chief executive for its first 10 years. Under Brett's leadership, Virgin Blue successfully navigated through such hazards as 9/11, the Bali bombings and, more recently, the global financial crisis. Now the Group employs 6,000 people, operates four airlines, including new long-haul premium carrier V Australia, all up carrying 20 million 'guests' per annum. Brett and his team have changed the face of aviation in Virgin Blue's region and in so doing made air travel accessible to a great many more people. He has been awarded the Australian Centenary Medal for his service to tourism and aviation, was recognised as the Australian Chief Executive of the Year by the Customer Service Institute of Australia, and the Outstanding Chartered Accountant in Business, by the Australian Institute of Chartered Accountants.

## 06

**John Brabazon**
**BCom (Auck) ACA, AFInstD, F FIN**

John Brabazon was appointed a director of the company in 2007, and is a member of the audit and risk committee. He is an executive director of merchant bankers Clavell Capital Limited and has over 26 years' experience in the capital markets. John is also the president of Kern River Oil Corporation in the USA. His former directorships include 13 years in aggregate spent on the board of seven companies with total assets exceeding NZ$1.7 billion. He is a member of the New Zealand Institute of Chartered Accountants, an Accredited Fellow of the Institute of Directors in New Zealand (Inc), and a Fellow of the Financial Services Institute of Australasia.

## 07

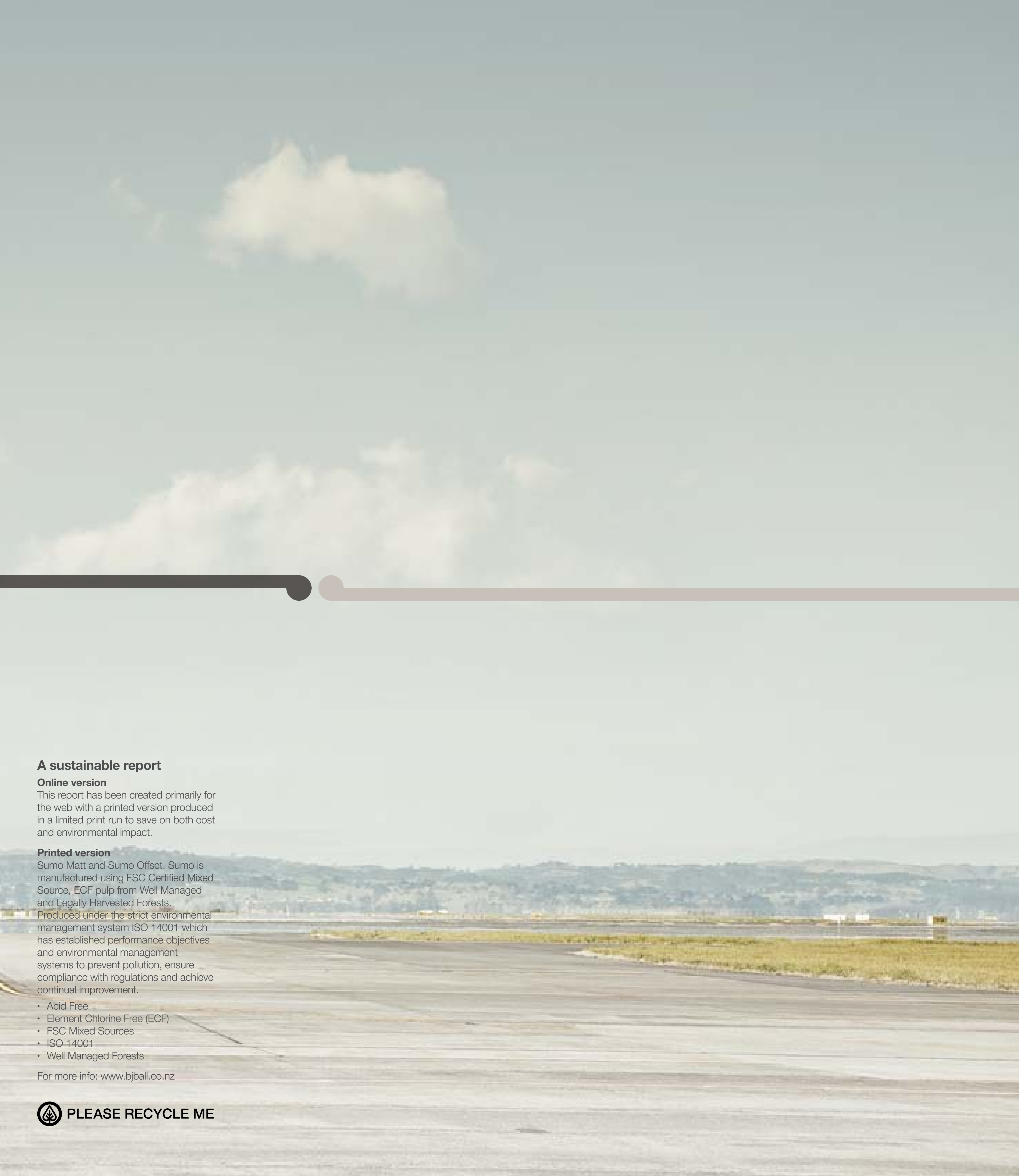
**Keith Turner**
**BE (Hons), ME, PhD,**
**FIEE, FIPENZ, FNZIM**

Keith Turner was appointed a director of the company in 2004 and is the deputy chair. He has 39 years' experience in the New Zealand electricity industry, the last 21 years of which have been spent in senior executive positions. Keith has participated in widespread reform of the industry, both in industry review teams and acting for the Government on a range of industry boards. In 1999, he took up the position of chief executive of Meridian Energy following the breakup of ECNZ, a role he retired from on 31 March 2008. He has an extensive track record in creating value from infrastructure with a particular focus on identifying market opportunities, strategic analysis, large capital project development and execution, organisation culture and large scale operations. Keith now holds a number of small and large board positions, and undertakes executive coaching and international consulting activities.

## 08

**Richard Didsbury**
**BE (Auck)**

Richard Didsbury was appointed a director of the company in November 2007. He graduated in Engineering from The University of Auckland. In 1992, Richard was a co-founder of the Kiwi Income Property Trust (KIPT), which is now the largest property vehicle listed on the NZX, and he remains a director of that company. Within KIPT, Richard led the Sylvia Park project team which successfully completed New Zealand's biggest retail development. He is a director of the Hobsonville Land Company, which is developing a major new waterfront community in north-west Auckland. Richard offers complementary skills to the board of Auckland Airport, particularly his extensive property development expertise which, together with his experience of transportation issues gained during his time on the board of Infrastructure Auckland, will be of value to the company as it deals with the future issues of land access to and from Mangere.



## A sustainable report

**Online version**
This report has been created primarily for the web with a printed version produced in a limited print run to save on both cost and environmental impact.

**Printed version**
Sumo Matt and Sumo Offset. Sumo is manufactured using FSC Certified Mixed Source, ECF pulp from Well Managed and Legally Harvested Forests. Produced under the strict environmental management system ISO 14001 which has established performance objectives and environmental management systems to prevent pollution, ensure compliance with regulations and achieve continual improvement.

- Acid Free
- Element Chlorine Free (ECF)
- FSC Mixed Sources
- ISO 14001
- Well Managed Forests

For more info: www.bjball.co.nz

PLEASE RECYCLE ME

# A higher altitude

# Financial report

For the year ended 30 June 2011

## Introduction

During the 2011 financial year, the directors and the management team of Auckland Airport remained focused on strategic direction and continued to execute well on our plans to grow the business. This is despite the natural disasters which have affected many people, especially in New Zealand, and have also impacted tourism.

Focusing on the delivery of our business strategies has resulted in a considerable lift in financial results from recent years of relatively flat profitability. Our underlying profit after taxation for the 2011 financial year of $120.870 million is a very strong increase from the previous year's underlying profit after taxation of $105.051 million.

We have accomplished many of our goals in the 2011 financial year, enabling the achievement of a great financial result. However, perhaps more importantly, we have also created a strong platform for growing the financial results for the 2012 financial year and beyond.

This financial report for 2011 provides an overview of the financial results and key trends for the year ended 30 June 2011 compared with the previous financial year. It also provides a summary of the company's key performance indicators, financial position, capital expenditure programme and financing sources. Readers are referred to the accompanying notes and accounting policies as set out in the financial statements for a full understanding of the basis on which the financial results are determined.

**Key financial results and performance indicators**
The company actively monitors a range of key financial results and performance indicators which includes both financial and operating ratios. The key results are shown in the table below:

| | 2011 $m | 2010 $m | % Change |
|---|---|---|---|
| Income | 397.723 | 363.113 | 9.5 |
| Expenses | 99.494 | 86.802 | 14.6 |
| **Earnings before interest, taxation, depreciation, fair value adjustments and investments in associates (EBITDAFI)** | **298.229** | **276.311** | **7.9** |
| EBITDAFI margin | 75.0% | 76.1% | –1.1 |
| Reported profit after tax | 100.761 | 29.694 | 239.3 |
| **Underlying profit after tax** | **120.870** | **105.051** | **15.1** |
| Earnings per share (cents) | 7.65 | 2.36 | 224.2 |
| Underlying earnings per share (cents) | 9.18 | 8.35 | 9.9 |
| Ordinary dividends | | | |
| – cents per share | 8.7 | 8.2 | 6.1 |
| – amount | 114.870 | 107.156 | 7.2 |

Income, excluding the share of profits from associates, grew strongly in the 2011 financial year. While the revenue growth was broadly spread across the business, the standout was retail revenue growth.

The completion of the new departure area in the international terminal has played a strong role in creating a positive environment and lifting passenger spend-rates. Revenue growth grew by $34.610 million and this more than offset the growth in expenses of $12.692 million to grow EBITDAFI by $21.918 million.

Revaluations of property impacted the reported profits (both positively and negatively) and an explanation of the impact of the revaluations is included later in this report.

The key ratios are set out in the following table. Note that these indicators are adjusted for changes in the fair value of investment properties and property, plant and equipment as well as for one-off items such as the deferred tax liability change in 2010 to reflect underlying performance:

| | 2011 | 2010 | % change |
|---|---|---|---|
| **Financial performance** | | | |
| Underlying operating EBITDAFI margin | 75.0% | 76.1% | –1.1 |
| Underlying profit after tax return on capital employed | 5.5% | 5.6% | –0.1 |
| **Financial position and gearing** | | | |
| Debt/Debt + equity | 30.5% | 36.3% | –5.8 |
| Debt/EBITDAFI | 3.64 | 3.92 | –7.1 |
| **Operating efficiencies** | | | |
| Passengers per operating staff member | 47,366 | 44,491 | 6.5 |
| Operating income per operating staff member | $1,362,712 | $1,201,300 | 13.4 |
| Operating income per passenger | $28.77 | $27.00 | 6.6 |
| Retail income per international passenger | $14.28 | $12.92 | 10.5 |
| Car park income per passenger | $2.60 | $2.47 | 5.3 |
| Operating staff costs/operating revenue | 8.20% | 8.70% | –0.6 |

A pleasing aspect of the financial result for the 2011 financial year is the improvement in the operating efficiencies.

**We measure our success based on underlying profit as well as reported profit**

Directors and management of Auckland Airport understand the critical importance of reported profits meeting accounting standards. In complying with accounting standards, users can confidently know that comparisons can be made between different companies and that there is integrity in the reporting approach of an entity. However, we also believe that an underlying profit measurement can assist readers to understand what is happening in a business such as Auckland Airport where revaluation changes can make financial results lumpy or where one-off transactions (both positive and negative) can make the comparisons of profits between years difficult.

For several years now, Auckland Airport has referred to underlying profits alongside reported results. We do so when we report our results but also when we give market guidance (where we exclude fair value changes and other one-off items) or when we consider dividends (our dividend policy is to pay 90.0 percent of net profit after tax – excluding unrealised gains and losses arising from a revaluation of property, or treasury instruments and other one-off items). However, in doing so, we also acknowledge our obligation to show users how we have derived our underlying result.

The table below shows how we reconcile between reported profit after tax and underlying profit after tax for both the 2011 and 2010 financial years:

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| **Profit after tax** | Reported earnings $000 | Adjustments $000 | Underlying earnings $000 | Reported earnings $000 | Adjustments $000 | Underlying earnings $000 |
| EBITDAFI per Income statement | 298,229 | - | 298,229 | 276,311 | - | 276,311 |
| Share of profit of associates | 4,755 | (4,339) | 416 | 98 | - | 98 |
| Gain on sale of an associate | 1,240 | (1,240) | - | - | - | - |
| Derivative fair value increases | 3,503 | (3,503) | - | - | - | - |
| Investment property fair value increases | 21,640 | (21,640) | - | 9,469 | (9,469) | - |
| Property, plant and equipment fair value movements | (63,465) | 63,465 | - | - | - | - |
| Depreciation | (56,843) | - | (56,843) | (55,736) | - | (55,736) |
| Interest expense and other finance costs | (70,417) | - | (70,417) | (71,938) | - | (71,938) |
| Deferred tax adjustment on buildings | - | - | - | (84,404) | 84,404 | - |
| Other taxation expense | (37,881) | (12,634) | (50,515) | (44,106) | 422 | (43,684) |
| **Profit after tax** | **100,761** | **20,109** | **120,870** | **29,694** | **75,357** | **105,051** |

We have made the following adjustments to show underlying profit after tax in both the 2011 and 2010 financial years:

- We have reversed out the impact of revaluations of investment property in both 2010 and 2011. An investor should monitor changes in investment property over time as a measure of growing value. However, a change in one particular year can be too short for measuring success in this area. Changes between years can be volatile and will therefore impact comparisons. Finally, the amount, being unrealised, is not considered when determining dividends in accordance with the dividend policy.
- To be consistent, we have adjusted the revaluations of investment property from our associates that are contained within the share of profit of associates in 2011.
- In the 2011 financial year, we also revalued our property, plant and equipment. Like the investment property revaluation, the total revaluation is unrealised and therefore is not considered when determining dividends. Unlike investment property, the revaluation is not carried out annually (making comparisons even more volatile) and the change in valuation of property, plant and equipment in the income statement is only one component of the total revaluation, which comprise the assets that had a decrease in value.

  The gains from assets that increased in value are not shown in the income statement; instead, those gains are included in the revaluation reserve within equity.
- In 2011, we also had a gain in a hedge of interest rate risk that is not allowed to be hedge accounted. This gain, like investment property, is unrealised but will also reverse out over the life of the hedge. That is, as the benefits are realised, the value of the hedge will decrease in value and will therefore be reversed as a loss in value in the future.
- In 2011, we sold an associate (HMSC-AIAL Limited) and made a gain on the sale. This is a one-off transaction that we have reversed out in order to make the comparison to the prior year based on business that is expected to continue.
- Also, in 2010, a change in taxation removed the ability to depreciate building structures when the tax depreciation life was greater than 50 years. This created a one-off, non-cash accounting adjustment increasing the deferred tax liability and tax expense by $84.404 million. In effect, the accounting charge represented a one-off loss relating to the forfeiture of all future tax relief on building structures.
- We also have adjusted for the taxation impacts of the above changes in both 2010 and 2011.

Adjusting for one-off items and non-cash fair value changes, underlying profit for the 2011 financial year was $120.870 million, an increase of 15.1 percent from the 2010 financial year.

Earnings per share on underlying profit were 9.18 cents per share in 2011, compared with 8.35 cents per share in 2010.

A look at the income statement tells only part of the story of revaluations in 2011.

As at 30 June 2011, Auckland Airport revalued the company's property, plant and equipment as well as the company's investment property. However, the revaluations of these different asset classes are not treated the same way in the financial statements.

Investment property revaluations are recorded in the income statement. This occurs whether the change in an asset value was an increase or a decrease.

For property, plant and equipment, on the other hand, the accounting treatment is different depending on whether an individual asset's value increased or decreased as part of the revaluation. A revaluation decrease in a particular asset is recorded in the income statement and flows into retained earnings.

An increase in a particular asset is recorded in the statement of comprehensive income and flows through into a property, plant and equipment revaluation reserve within equity. The different accounting treatment makes the impact of revaluations more difficult to easily understand. To assist, we have shown below the value of the property, plant and equipment and investment property both before and after the revaluation. The difference between the two revaluations is then split to show where these have been recognised in the financial statements before taxation impacts.

| **2011 ($000s)** | Summary of individual asset values before revaluations | Summary of individual asset values after revaluations | Difference | Recognised in the income statement | Recognised in other comprehensive income | Total |
|---|---|---|---|---|---|---|
| **Property, plant and equipment** | | | | | | |
| Land | 1,506,025 | 1,909,347 | 403,322 | (8,773) | 412,095 | 403,322 |
| Buildings and services | 518,176 | 518,325 | 149 | (43,565) | 43,714 | 149 |
| Infrastructure | 224,396 | 280,026 | 55,630 | (9,722) | 65,352 | 55,630 |
| Runway, taxiways and aprons | 247,009 | 307,141 | 60,132 | (1,405) | 61,537 | 60,132 |
| Plant and equipment and vehicles | 20,581 | 20,581 | - | - | - | - |
| **Total property, plant and equipment** | **2,516,187** | **3,035,420** | **519,233** | **(63,465)** | **582,698** | **519,233** |
| **Total investment property** | **524,582** | **546,232** | **21,640** | **21,640** | **-** | **21,640** |

The change in the company's investment property value was an increase of $21.640 million, an increase of 4.1 percent in value in the 2011 financial year. The increase in the value of the investment property in 2011 compares to a valuation increase of $9.469 million in 2010.

The change in the company's property, plant and equipment value was an increase of $519.233 million with valuation decreases of $63.465 million recognised in the income statement and valuation increases of $582.698 million recognised in other comprehensive income. The net property, plant and equipment change was an increase of 20.6 percent in value recognised in the 2011 financial year. These assets were last revalued at 30 June 2006.

For further information on the revaluations, including key assumptions, readers are referred to the notes to the financial statements including accounting policies.

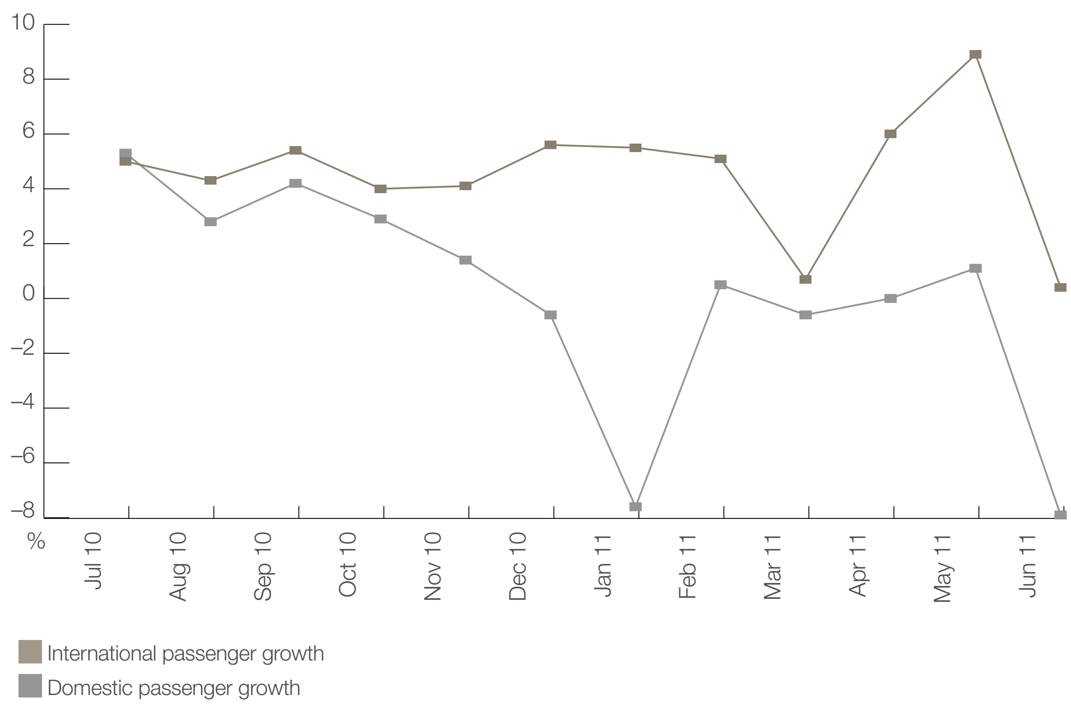
**Passenger volumes are our biggest value driver**
Passenger volumes are the most important driver of value for Auckland Airport. In particular, international passengers provide greater aeronautical revenue than do domestic passengers and also spend more on retail opportunities within the terminals.

| | 2011 | 2010 | % change |
|---|---|---|---|
| **Auckland passenger movements** | | | |
| International arrivals | 3,401,737 | 3,260,315 | 4.3 |
| International departures | 3,420,464 | 3,287,375 | 4.0 |
| International passengers excluding transits | 6,822,201 | 6,547,690 | 4.2 |
| Transits passengers | 959,618 | 868,102 | 10.5 |
| **Total international passengers** | **7,781,819** | **7,415,792** | **4.9** |
| Total domestic passengers | 6,042,468 | 6,032,410 | 0.2 |
| **Total passenger movements** | **13,824,287** | **13,448,202** | **2.8** |

In the 2011 financial year, total passenger movements were 13,824,287, an increase of 2.8 percent over the 2010 year. Despite the challenges faced this year, including the Christchurch earthquakes, the Chilean ash cloud and the Japanese tsunami, which all have had a significant impact on tourism, international passenger movements, including transit passengers, increased by 4.9 percent in 2011. International passenger growth of outbound New Zealand passengers has been particularly strong in 2011.

However, this is in contrast to domestic passenger growth which struggled particularly in the second half of the financial year. The drag on growth experienced in domestic passenger movements was largely driven by Pacific Blue's exit from the domestic market in October 2010. The drop experienced in June 2011 in both domestic and international passenger movements was a result of the Chilean ash cloud which caused the cancellation of several flights.

**Passenger growth rates 2011**



**Passengers arriving at Auckland by country**

| Country of last permanent residence | 2011 arrivals | % | 2010 arrivals | % | % change |
|---|---|---|---|---|---|
| New Zealand | 1,589,069 | 46.9 | 1,498,484 | 46.1 | 6.0 |
| Australia | 649,017 | 19.2 | 633,228 | 19.5 | 2.5 |
| United Kingdom | 188,779 | 5.6 | 190,385 | 5.9 | –0.8 |
| United States of America | 154,772 | 4.6 | 155,056 | 4.8 | –0.2 |
| China, People's Republic of | 128,064 | 3.8 | 101,246 | 3.1 | 26.5 |
| Japan | 63,724 | 1.9 | 62,567 | 1.9 | 1.8 |
| Germany | 50,814 | 1.5 | 51,319 | 1.6 | –1.0 |
| Korea, Republic of | 47,232 | 1.4 | 48,346 | 1.5 | –2.3 |
| Canada | 42,139 | 1.2 | 41,673 | 1.3 | 1.1 |
| India | 30,177 | 0.9 | 26,453 | 0.8 | 14.1 |
| Hong Kong | 22,223 | 0.7 | 23,001 | 0.7 | –3.4 |
| Singapore | 21,801 | 0.6 | 17,708 | 0.5 | 23.1 |
| Fiji | 20,295 | 0.6 | 22,184 | 0.7 | –8.5 |
| France | 19,438 | 0.6 | 20,361 | 0.6 | –4.5 |
| Netherlands | 18,786 | 0.6 | 19,406 | 0.6 | –3.2 |
| Other | 340,141 | 10.0 | 340,019 | 10.5 | 0.0 |
| **Total** | **3,386,471** | **100.0** | **3,251,436** | **100.0** | **4.2** |

Source: Statistics New Zealand

New Zealanders and Australians, based on country of last permanent residence, collectively made up 66.1 percent of international passenger arrivals at Auckland Airport, an increase from 65.6 percent in the prior year. The strongest international passenger growth came from China, with an increase of 26.5 percent – almost 27,000 more arrivals. The increase in Chinese arrivals reflects increased seat capacity, route development and marketing campaigns driving passenger demand.

International passenger growth also came from Singapore (23.1 percent), India (14.1 percent) and Australia (2.5 percent).

International arrivals from Europe fell slightly during 2011 as a result of economic conditions as well as the impact of natural disasters.

Looking forward to 2012, our expectations are for international passenger numbers at Auckland Airport to grow at a rate similar to that of 2011, reflecting the impact of growing airline capacity introduced during the 2011 financial year as well as the positive impact of the Rugby World Cup. Domestic passenger numbers are also expected to lift from 2011 levels with the Rugby World Cup impacting positively and the full year impact of recent increases in Air New Zealand and Jetstar's capacity following Pacific Blue's exit providing a lift in available seats.

### Overseas visitor arrivals by purpose of visit

| Purpose of visit | 2011 | 2010 | % change | % of total |
|---|---|---|---|---|
| Business/Conference | 490,811 | 455,027 | 7.9 | 14.5 |
| Holiday/Vacation | 766,700 | 750,406 | 2.2 | 22.6 |
| Education/Medical | 87,708 | 80,245 | 9.3 | 2.6 |
| Visit friends/relatives | 574,788 | 575,283 | –0.1 | 17.0 |
| Other (incl. Not stated/Not captured) | 1,466,464 | 1,390,475 | 5.5 | 43.3 |

Source: Statistics New Zealand

The most popular purposes of visit remain holidays (22.6 percent) and visiting friends and relatives (17.0 percent). The broad mix of purpose of visit for overseas travellers through Auckland Airport, combined with a strong origin traffic base (New Zealand outbound), the attractiveness of New Zealand's destinations and the mix of origin of inbound passengers, provides Auckland Airport with a robust base of passenger volumes.

| **Aircraft volumes** | 2011 | 2010 | % change |
|---|---|---|---|
| **Aircraft movements** | | | |
| International aircraft movements | 43,782 | 42,697 | 2.5 |
| Domestic aircraft movements | 110,508 | 112,274 | –1.6 |
| **Total aircraft movements** | **154,290** | **154,971** | **–0.4** |
| **MCTOW (maximum certificated take-off weight)** | | | |
| International MCTOW | 4,007,728 | 3,923,989 | 2.1 |
| Domestic MCTOW | 1,682,824 | 1,744,547 | –3.5 |
| **Total MCTOW tonnes** | **5,690,552** | **5,668,536** | **0.4** |

Total aircraft movements were 154,290, a decrease of 0.4 percent from 2010. International aircraft movements increased by 2.5 percent, while domestic aircraft movements decreased by 1.6 percent.

The company's airfield income is determined from the maximum certificated take-off weight (MCTOW) of aircraft landing at Auckland Airport. The total MCTOW was 5,690,552 tonnes, an increase of 0.4 percent from 2010. Total international MCTOW increased 2.1 percent largely driven by new international services that increased aircraft landings and MCTOW. Total domestic MCTOW decreased by 3.5 percent mainly due to the withdrawal of Pacific Blue from domestic services in October 2010.

# Financial performance

## Income

Auckland Airport's total income was $397.723 million in 2011, an increase of $34.610 million over 2010.

| | 2011 $m | 2010 $m | % change |
|---|---|---|---|
| Airfield income | 72.529 | 66.715 | 8.7 |
| Passenger services charge | 78.760 | 73.252 | 7.5 |
| Terminal services charge | 28.342 | 27.814 | 1.9 |
| Retail income | 111.150 | 95.817 | 16.0 |
| Rental income | 49.927 | 48.533 | 2.9 |
| Car park income | 33.437 | 31.057 | 7.7 |
| Interest income | 1.460 | 1.678 | (13.0) |
| Other income | 22.118 | 18.247 | 21.2 |
| **Total income** | **397.723** | **363.113** | **9.5** |

### Airfield income

As noted above, airfield landing charges are based on the MCTOW of aircraft. Airfield income was $72.529 million, an increase of $5.814 million over 2010. This increase was largely due to the nine month delay in increasing landing charges in 2010 to assist the airline industry and New Zealand tourism during difficult trading conditions in the wake of the global financial crisis. The price increases originally scheduled for July 2009 were not put in place until March 2010. The next landing charge increases were implemented as scheduled on 1 July 2010; therefore, 2011 enjoyed a full year at this higher rate. Additionally, an overall 0.3 percent increase in MCTOW contributed to the increase in airfield income.

### Passenger services charge

The passenger services charge (PSC) is levied on airlines for departing and arriving international passengers (excluding transits), 12 years old and over, and provides part of the company's return on its aeronautical assets. The PSC levy for the 2011 period was $12.44 excluding GST, for both departing and arriving travellers (2010: $12.00 excluding GST).

PSC income was $78.760 million, an increase of $5.508 million over the previous year. This increase was driven by the increase in international passenger volumes combined with the increase in the PSC levy from 1 July 2010 as per the 2007 price schedule.

### Terminal services charge

The terminal services charge (TSC) reflects a rental for space as well as capital and cost recoveries from the airlines for international terminal operational areas, and is based on an agreed formula applied each year. The TSC for 2011 was $28.342 million, an increase of $0.528 million over 2010.

### Retail income

The company earns significant revenue from its retail concessions, including duty free and specialty stores, foreign exchange, and food and beverage outlets. Retail income was $111.150 million, an increase of $15.333 million (16.0 percent) over 2010.

Retail income per international passenger (including transits and transfers) was $14.28 in the 2011 financial year, compared with $12.92 in 2010. The landside and airside construction in the departures area of the international terminal building, which was completed in December 2010, has resulted in an improved passenger experience and better retail offerings which have contributed to passengers' willingness to spend. We believe we have a world-class retail experience within the international terminal.

### Rental income

Auckland Airport earns rental income from space leased in facilities such as terminals and cargo buildings, and stand-alone investment properties. Rental income across the business was $49.927 million, an increase of $1.394 million (2.9 percent) over 2010. This was largely due to positive rent reviews completed in the period as well as an increase in occupancy levels to 99 percent.

### Car park income

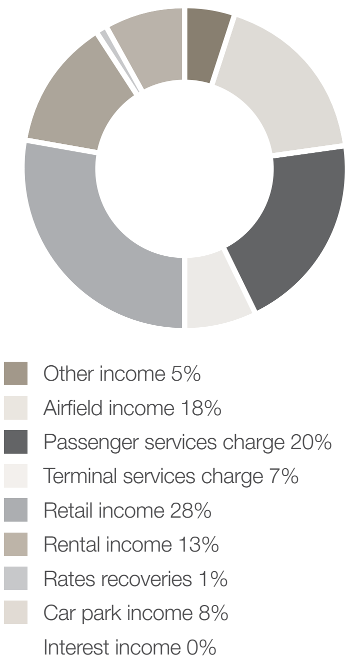
At 30 June 2011, the company had parking facilities for 7,988 cars, the same as for the prior year. Despite no change in the number of spaces available, car park income increased 7.7 percent to $33.437 million, from $31.057 million in 2010.

In a competitive parking environment, car park income has maintained excellent growth. This growth has been driven by continued promotional activity, a refinement of product offerings including a valet car cleaning service, a full year of online booking capability and an increase in passenger numbers.

### Other income

Other income includes utilities (sale of electricity, gas and water), rates recoveries from tenants, transport licence fees and other miscellaneous revenue items. Total income from these sources was $22.118 million, an increase of $3.871 million (21.2 percent) over the previous year. This is primarily due to a $1.331 million increase in rates recoveries as well as a $0.879 million increase in transport licence fees from the prior year.

### Income by source




## Expenses

Total operating expenses (excluding depreciation and interest) were $99.494 million in 2011, an increase of $12.692 million over 2010.

| | 2011 $m | 2010 $m | % change |
|---|---|---|---|
| Staff | 32.607 | 31.574 | 3.3 |
| Asset management, maintenance and airport operations | 32.854 | 30.948 | 6.2 |
| Rates and insurance | 7.829 | 7.035 | 11.3 |
| Marketing and promotions | 11.751 | 4.544 | 158.6 |
| Other | 14.453 | 12.701 | 13.8 |
| **Total operating expenses** | **99.494** | **86.802** | **14.6** |

The increase in staff costs is largely reflective of the average rise in employee remuneration in line with market adjustments.

Asset management, maintenance and airport operations expenses were up $1.906 million mainly due to increased cleaning and repairs and maintenance costs. The growth in repairs and maintenance resulted from a shift to an outsourced grounds maintenance model at the beginning of the 2011 financial year. Cleaning expenses have increased to ensure that the facilities at the airport continue to meet the highest standards.

Rates and insurance increased $0.794 million, year on year, due to a wash up of rate refunds in the 2010 financial year that was not repeated in 2011.

An increase in marketing, promotions and public relations expenses of $7.207 million has been dominated by route development and promotional initiatives across key markets including Asia. This expense category is a key investment in driving superior revenue growth.

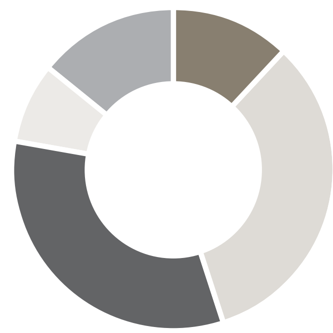
### Depreciation

Depreciation expense was $56.843 million, an increase of $1.107 million over the previous year. This growth reflects the increase in capital expenditure in the period.

### Taxation

Taxation expense was $37.881 million for the 2011 financial year, compared to taxation expense of $128.510 million in 2010. This reduction reflects the one-off deferred tax adjustment on buildings incurred during the 2010 financial year of $84.404 million.

**Expenses by category**




## Outstanding results from our associates

### North Queensland Airports

The company's share of North Queensland Airports' (NQA) net profit after tax for the period was NZ$3.624 million, compared to a loss of $0.792 million in 2010. The net profit after tax was boosted by positive investment property revaluations. Excluding the impact of this revaluation, the share of loss is similar to that of the 2010 financial year. This financial result of NQA, excluding the investment property revaluation, was consistent with Auckland Airport's planning expectations. Auckland Airport's share of the dividends declared by NQA in the year ended 30 June 2011 was NZ$8.756 million and the cash flow generated by NQA remains ahead of expectations.

Passenger numbers have increased significantly at both Cairns and Mackay, with international passengers up 20.7 percent on June 2010 and domestic passengers up 8.0 percent. This increase in passenger numbers, in spite of the effect of the Japanese tsunami and Queensland floods on travel markets, and improvements in yield have driven the better than planned EBITDA performance from NQA during 2011.

| | Actual results FY11 | FY11 improvement milestones (published 7 July 2010) |
|---|---|---|
| Domestic passenger volume (Cairns and Mackay Airports) | 4,224,236 | 4,200,000 |
| International passenger volume (excluding transits) (Cairns Airport) | 674,295 | 640,000 |
| Operating EBITDAFI | AU$59.485 million | AU$55.0 million |
| Non-aeronautical revenue | AU$35.102 million | AU$34.0 million |

### Queenstown Airport

Passenger numbers were significantly up on the prior year despite a number of challenges, including the Chilean ash cloud in June 2011 which resulted in a significant number of flight cancellations during that month.

| | Actual results FY11 | Actual results FY10 |
|---|---|---|
| Domestic passenger volume | 763,159 | 703,892 |
| International passenger volume | 161,089 | 107,572 |
| Operating EBITDA | $9.881 million | $8.887 million |

### Dividends

Ordinary dividends for the 2011 financial year will total 8.7 cents per share (0.5 cents higher than last financial year) or $114.870 million in total. Excluding unrealised gains and losses from property revaluations and treasury instruments as well as other one-off items, this equates to a dividend pay out ratio of 95.0 percent of underlying profit compared with 102.0 percent in 2010.

The formal dividend pay-out policy remains at 90.0 percent (excluding unrealised gains and losses from property revaluations and treasury instruments as well as other one-off items). However, the directors will consider the payment of ordinary dividends above this level, subject to the company's cash flow requirements and outlook at the time, and the availability of imputation credits.

Auckland Airport has continued to offer a Dividend Reinvestment Plan (DRP), which provides shareholders with a simple and convenient way to reinvest their dividends in additional shares in Auckland Airport, free of any brokerage, commission or other transaction costs. The company intends to conduct a share buy-back programme later this calendar year to match the shares issued under the DRP as there is no current need for the new equity from a DRP.

The final dividend of 4.70 cents per share will be paid on 21 October 2011 to shareholders on the register at the close of business on 7 October 2011. The dividend will carry full imputation credits. In addition, the normal supplementary dividend, sourced from corresponding tax credits available to the company, will be paid to non-resident shareholders.

## Cash flow

| | 2011 $m | 2010 $m | % change |
|---|---|---|---|
| Net cash inflow from operating activities | 174.941 | 176.256 | –0.1 |
| Net cash outflow from investing activities | (82.280) | (224.132) | 63.3 |
| Net cash inflow/(outflow) from financing activities | (82.567) | 49.608 | N.A. |
| **Net increase in cash held** | **10.094** | **1.732** | **482.8** |

Net cash inflow from operating activities was $174.941 million, a decrease of $1.315 million from 2010. This was mainly the result of the prior year having the benefit of new provisional tax payment dates that delayed the timing of the cash flows. The 2011 financial year's tax cash flows include three provisional tax payments and the 2010 financial year had two provisional tax payments. This increase in income tax cash flow was partially offset by a net increase in receipts from customers.

Net cash outflow from investing activities was $82.280 million, an increase of $141.852 million from 2010. This increase reflects the 24.55 percent investment in NQA in January 2010 of $168.021 million.

Net cash outflow from financing activities was $82.567 million, compared to a net cash inflow of $49.608 million in 2010. This reflects the $111.008 million cash payment of dividends partially offset by the share capital inflow of $25.141 million from the DRP.

## Financial position

| | 2011 $m | 2010 $m | % change |
|---|---|---|---|
| **As at 30 June** | | | |
| Non-current assets | 3,788.749 | 3,193.233 | 18.6 |
| Current assets | 77.461 | 68.825 | 12.5 |
| **Total assets** | 3,866.210 | 3,262.058 | 18.5 |
| | | | |
| Non-current liabilities | 899.605 | 1,083.634 | (17.0) |
| Current liabilities | 499.074 | 264.790 | 88.5 |
| Equity | 2,467.531 | 1,913.634 | 28.9 |
| **Total equity and liabilities** | 3,866.210 | 3,262.058 | 18.5 |

As at 30 June 2011, total assets amounted to $3,866.210 million, an increase of $604.152 million (18.5 percent) from 2010. The increase is primarily due to an upward revaluation on property, plant and equipment of $519.233 million as well as an increase of $21.640 million on the revaluation of investment property. The investment in Queenstown Airport, which is equity-accounted as an investment in associates, has a value as at 30 June 2011 of $29.098 million and also contributed to the increase in total assets.

Shareholders' equity was $2,467.531 million, an increase of $553.897 million (28.9 percent) over 2010. The change is mostly due to the increase in the carrying value of assets after the revaluation.

Gearing (measured as debt to debt plus shareholders' equity) decreased to 30.5 percent, as at 30 June 2011, from 36.3 percent as at 30 June 2010. The change is also mostly due to the increase in the carrying value of assets after the revaluation.

### Capital structure and credit rating

Standard & Poor's (S&P) long-term credit rating of Auckland Airport remains at 'A–' (A minus) and the short-term rating is 'A2'. An A– rating by S&P reflects the strength of Auckland Airport and our ability to meet our financial commitments.

The directors are committed to retaining the company's strong credit rating and balance sheet position. The company has one of the highest credit ratings of all Australasian airports. The balance sheet continues to be prudently managed in the current challenging business and financing environment.

## Capital expenditure

| Category | Amount $m | Key projects |
|---|---|---|
| Retail | 10.380 | First floor redevelopment in the international terminal building |
| Aeronautical | 14.596 | Noise treatment of houses and schools, new Emirates VIP lounge and runway pavement works |
| Property | 46.205 | Food Innovation New Zealand Centre, Travel Careers & Training, Formule 1 hotel, DSV Air and Sea, Mercedes and other land and property development |
| Infrastructure and other | 2.971 | Service delivery enhancements |
| Car parking | 0.622 | Car park system retail upgrade |
| **Total** | **74.774** | |

The company invested $74.774 million (2010: $54.290 million) during the year, including capitalised interest, in a range of projects to increase future revenues. The 2011 financial year's capital expenditure was lower than the market guidance due to a combination of later timing of the expenditure on some projects under way, lower than planned expenditure on some projects and the elimination of some planned expenditure where other solutions were deemed to provide a better overall outcome.

In the international terminal building, capital expenditure of $10.380 million was predominately related to the final stages of the international terminal's first floor departure redevelopment, including the new dwell area when passengers have passed security, as well as new stores in the departure area.

Aeronautical investments of $14.596 million included noise mitigation initiatives for neighbouring schools and residential houses, a new Emirates VIP lounge in the international terminal as well as a range of capital maintenance projects.

Property investment increased to $46.205 million from $11.930 million in the 2010 financial year, as the kick-start property strategy in 2010 came through as investment in 2011.

Key projects during the year included the construction of the Food Innovation New Zealand Centre, Travel Careers & Training, the Formule 1 hotel development, DSV Air and Sea, Mercedes and the start of the new OfficeOne building as another addition to the heart of the Airport Business District we call the Quad.

The company currently expects to invest approximately $80 million in the 2012 financial year on a range of projects summarised in the table below. This estimate excludes any yet to be committed property development projects or potential works on domestic terminal capacity. The largest category of the planned capital expenditure investment in 2012 is within Property, and this includes development of the OfficeOne building as well as various other capital investments aimed at growing property rental in a sustainable manner.

| Category | Forecast 2012 $m |
|---|---|
| Property | 40 |
| Aeronautical | 32 |
| Retail and car parking | 5 |
| Infrastructure and other | 3 |
| **Total capital expenditure** | **80** |

## Financing and interest

Interest expense and other finance costs were $70.417 million, a decrease of 2.1 percent over 2010. The average borrowing interest rate 2011 financial year was 6.58 percent compared with 6.86 percent in 2010. The decrease in the average borrowing interest rate is a result of fixed rate interest rate swaps maturing during the period and rolling on to lower floating interest rates. Total borrowings were $1,084.646 million as at 30 June 2011, compared with $1,091.998 million as at 30 June 2010, with cash on hand of $46.146 million compared with $36.052 million a year earlier.

As at 30 June 2011, the company's total borrowings were $1,084.646 million, a decrease of $7.352 million (0.7 percent) over the previous year. Short-term borrowings with a maturity of one year or less accounted for $432.006 million (2010: $206.780 million), 39.8 percent of total borrowings. A $275 million bank facility with Commonwealth Bank of Australia matures within 12 months of balance date and this is the significant factor in the increase in short-term borrowings. The balance of $652.640 million (60.2 percent) comprised senior bonds, US Private Placement (USPP) notes and bank facilities with maturities of from one to 12 years.

The company has total bank facilities of $525 million, of which $327 million was drawn as at 30 June 2011. Total bank facilities include a $100 million syndicated cash advance facility of which $52 million is drawn, a $275 million bank facility which is fully drawn and a $150 million standby facility which remained undrawn as at 30 June 2011.

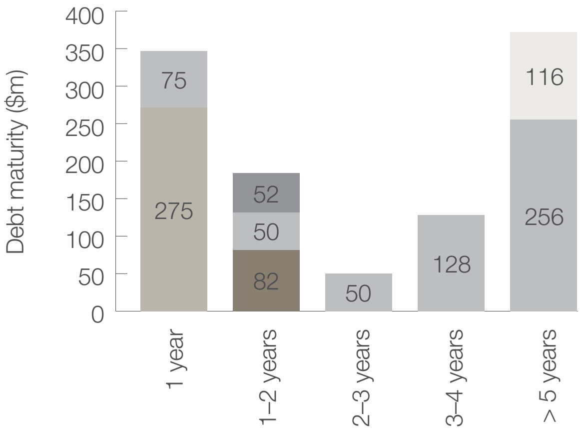
The standby facility supports the commercial paper programme (current balance of $81.803 million as at 30 June 2011) and provides liquidity support for general working capital.

During the year, the company raised a total of US$150 million in the USPP market to refinance the bank facility maturing on March 2011 and the floating rate notes and fixed bonds maturing in July 2011. The USPP issuance is made up of three tranches of US$50 million each.

### Borrowings by category

- Commercial paper 7.5%
- Bank facility 30.1%
- Bonds and floating rate notes 51.6%
- USPP 10.7%

### Debt maturity profile




- Commercial paper
- Bank facility – CBA
- Bonds fixed and floating
- USPP
- Bank facility – syndicate

The tranches are a 4.42 percent coupon ten year note and a 4.57 percent coupon 12 year note which were drawn in February 2011 as well as a 4.67 percent coupon ten year note subsequently drawn in July 2011. Cross-currency interest rate swaps were also entered into at the same time to swap the US$ principal and fixed coupon obligations to NZ$ principal and floating interest rate exposures with no residual foreign currency risk exposure.

As at 30 June 2011, the company's borrowings include commercial paper totalling $81.803 million, bank facilities totalling $327.000 million, USPP notes totalling $116.211 million, and floating and fixed rate bonds totalling $559.632 million.

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

Measures have been adopted which have diversified the funding sources, maintained committed but undrawn credit facilities, and reduced the impact of interest rate fluctuations by maintaining a policy mandated level of fixed rate borrowings. Further details on the company's financial risk management objectives and policies are set out in note 21 of the financial statements.

Auckland Airport has a foreign currency exposure to the translation of the investment in NQA from AU$ to NZ$ in its balance sheet. On a consolidated group level, any movement in the value of this investment due to foreign currency translation is taken to the Foreign Currency Translation Reserve (FCTR). The group has a forward foreign exchange contract of AU$40.000 million that is used as a partial hedge of the net investment in the NQA operation. The movement in the value of this forward foreign exchange contract is also taken to the FCTR as a hedge against the movements from the revaluation of the investment.

# Notes

# Full financials

# Income statement

For the year ended 30 June 2011

| | Notes | GROUP 2011 $000 | GROUP 2010 $000 | PARENT 2011 $000 | PARENT 2010 $000 |
|---|---|---|---|---|---|
| **Income** | | | | | |
| Airfield income | | 72,529 | 66,715 | 72,529 | 66,715 |
| Passenger services charge | | 78,760 | 73,252 | 78,760 | 73,252 |
| Terminal services charge | | 28,342 | 27,814 | 28,342 | 27,814 |
| Retail income | | 111,150 | 95,817 | 111,150 | 95,817 |
| Rental income | | 49,927 | 48,533 | 49,927 | 48,533 |
| Rates recoveries | | 4,313 | 2,982 | 4,313 | 2,982 |
| Car park income | | 33,437 | 31,057 | 33,437 | 31,057 |
| Interest income | 5 | 1,460 | 1,678 | 15,362 | 7,865 |
| Other income | | 17,805 | 15,265 | 17,805 | 15,265 |
| **Total income** | | 397,723 | 363,113 | 411,625 | 369,300 |
| **Expenses** | | | | | |
| Staff | 5 | 32,607 | 31,574 | 32,607 | 31,574 |
| Asset management, maintenance and airport operations | | 32,854 | 30,948 | 32,854 | 30,948 |
| Rates and insurance | | 7,829 | 7,035 | 7,829 | 7,035 |
| Marketing and promotions | | 11,751 | 4,544 | 11,751 | 4,544 |
| Other | 5 | 14,453 | 12,701 | 14,485 | 12,701 |
| **Total expenses** | | 99,494 | 86,802 | 99,526 | 86,802 |
| **Earnings before interest, taxation, depreciation, fair value adjustments and investments in associates (EBITDAFI)** | | 298,229 | 276,311 | 312,099 | 282,498 |
| Share of profit of associates | 8 | 4,755 | 890 | - | 890 |
| Share of loss of an associate | 8 | - | (792) | - | - |
| Gain on sale of an associate | 8 | 1,240 | - | 1,240 | - |
| Derivative fair value increase | 5 | 3,503 | - | 3,503 | - |
| Property, plant and equipment revaluation | 11 | (63,465) | - | (63,465) | - |
| Investment property fair value increases | 12 | 21,640 | 9,469 | 21,640 | 9,469 |
| **Earnings before interest, taxation and depreciation (EBITDA)** | | 265,902 | 285,878 | 275,017 | 292,857 |
| Depreciation | 11 | 56,843 | 55,736 | 56,843 | 55,736 |
| **Earnings before interest and taxation (EBIT)** | | 209,059 | 230,142 | 218,174 | 237,121 |
| Interest expense and other finance costs | 5 | 70,417 | 71,938 | 70,417 | 71,938 |
| **Profit before taxation** | | 138,642 | 158,204 | 147,757 | 165,183 |
| **Taxation expense** | | | | | |
| Deferred tax adjustment on buildings | 6 | - | 84,404 | - | 84,404 |
| Other taxation expense | 6 | 37,881 | 44,106 | 42,042 | 45,962 |
| Total taxation expense | | 37,881 | 128,510 | 42,042 | 130,366 |
| **Profit after taxation attributable to owners of the parent** | | 100,761 | 29,694 | 105,715 | 34,817 |

| | | Cents | Cents |
|---|---|---|---|
| **Earnings per share:** | | | |
| Basic and diluted earnings per share | 10 | 7.65 | 2.36 |

The notes and accounting policies on pages 57 to 113 form part of and are to be read in conjunction with these financial statements.

# Statement of comprehensive income

For the year ended 30 June 2011

| | Notes | GROUP 2011 $000 | GROUP 2010 $000 | PARENT 2011 $000 | PARENT 2010 $000 |
|---|---|---|---|---|---|
| **Profit for the year** | | 100,761 | 29,694 | 105,715 | 34,817 |
| Other comprehensive income | | | | | |
| Property, plant and equipment revaluation reserve: | | | | | |
| Net revaluation movements | 16 | 582,698 | - | 582,698 | - |
| Tax on the property, plant and equipment revaluation reserve | 16 | (47,548) | 7,862 | (47,548) | 7,862 |
| Total property, plant and equipment revaluation reserve movement | | 535,150 | 7,862 | 535,150 | 7,862 |
| Movement in foreign currency translation reserve | 16 | 6,102 | (2,347) | - | - |
| Movement in share based payments | 16 | 7 | 11 | 7 | 11 |
| Movement in share of reserves of associates | 8 | (481) | (1,202) | - | - |
| Cash flow hedges: | | | | | |
| Fair value gains/(losses) recognised in the cash flow hedge reserve | 16 | (16,198) | (15,323) | (16,198) | (15,323) |
| Realised (gains)/losses transferred to the income statement | 16 | 13,733 | 20,812 | 13,733 | 20,812 |
| Tax effect of movements in the cash flow hedge reserve | 16 | 690 | (2,172) | 690 | (2,172) |
| Total cash flow hedge movement | | (1,775) | 3,317 | (1,775) | 3,317 |
| **Total other comprehensive income** | | 539,003 | 7,641 | 533,382 | 11,190 |
| **Total comprehensive income for the period, net of tax attributable to the owners of the parent** | | 639,764 | 37,335 | 639,097 | 46,007 |

The notes and accounting policies on pages 57 to 113 form part of and are to be read in conjunction with these financial statements.

# Statement of changes in equity

For the year ended 30 June 2011

| GROUP | Notes | Issued and paid-up capital $000 | Cancelled share reserve $000 | Property, plant and equipment revaluation reserve $000 | Share-based payments reserve $000 | Cash flow hedge reserve $000 | Share of reserves of associates $000 | Foreign currency translation reserve $000 | Retained earnings $000 | Total $000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **At 1 July 2010** | | 313,245 | (161,304) | 1,632,764 | 906 | (18,899) | (1,202) | (2,347) | 150,471 | 1,913,634 |
| Profit for the year | | - | - | - | - | - | - | - | 100,761 | 100,761 |
| Other comprehensive income/(loss) | | - | - | 535,150 | 7 | (1,775) | (481) | 6,102 | - | 539,003 |
| **Total comprehensive income/(loss)** | | - | - | 535,150 | 7 | (1,775) | (481) | 6,102 | 100,761 | 639,764 |
| Reclassification to retained earnings | 16 | - | - | (18,183) | - | - | - | - | 18,183 | - |
| Shares issued | 15 | 25,141 | - | - | - | - | - | - | - | 25,141 |
| Dividend paid | 9 | - | - | - | - | - | - | - | (111,008) | (111,008) |
| **At 30 June 2011** | | 338,386 | (161,304) | 2,149,731 | 913 | (20,674) | (1,683) | 3,755 | 158,407 | 2,467,531 |

| GROUP | | Issued and paid-up capital $000 | Cancelled share reserve $000 | Property, plant and equipment revaluation reserve $000 | Share-based payments reserve $000 | Cash flow hedge reserve $000 | Share of reserves of associates $000 | Foreign currency translation reserve $000 | Retained earnings $000 | Total $000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **At 1 July 2009** | | 174,738 | (161,304) | 1,628,783 | 895 | (22,216) | - | - | 220,251 | 1,841,147 |
| Profit for the year | | - | - | - | - | - | - | - | 29,694 | 29,694 |
| Other comprehensive income/(loss) | | - | - | 7,862 | 11 | 3,317 | (1,202) | (2,347) | - | 7,641 |
| **Total comprehensive income/(loss)** | | - | - | 7,862 | 11 | 3,317 | (1,202) | (2,347) | 29,694 | 37,335 |
| Reclassification to retained earnings | 16 | - | - | (3,881) | - | - | - | - | 3,881 | - |
| Shares issued | 15 | 138,507 | - | - | - | - | - | - | - | 138,507 |
| Dividend paid | 9 | - | - | - | - | - | - | - | (103,355) | (103,355) |
| **At 30 June 2010** | | 313,245 | (161,304) | 1,632,764 | 906 | (18,899) | (1,202) | (2,347) | 150,471 | 1,913,634 |

The notes and accounting policies on pages 57 to 113 form part of and are to be read in conjunction with these financial statements.

| PARENT | Notes | Issued and paid-up capital $000 | Cancelled share reserve $000 | Property, plant and equipment revaluation reserve $000 | Share-based payments reserve $000 | Cash flow hedge reserve $000 | Retained earnings $000 | Total $000 |
|---|---|---|---|---|---|---|---|---|
| **At 1 July 2010** | | 313,794 | (161,304) | 1,632,764 | 906 | (18,899) | 155,406 | 1,922,667 |
| Profit for the year | | - | - | - | - | - | 105,715 | 105,715 |
| Other comprehensive income/(loss) | | - | - | 535,150 | 7 | (1,775) | - | 533,382 |
| **Total comprehensive income/(loss)** | | - | - | 535,150 | 7 | (1,775) | 105,715 | 639,097 |
| Reclassification to retained earnings | 16 | - | - | (18,183) | - | - | 18,183 | - |
| Shares issued | 15 | 25,123 | - | - | - | - | - | 25,123 |
| Dividend paid | 9 | - | - | - | - | - | (111,022) | (111,022) |
| **At 30 June 2011** | | 338,917 | (161,304) | 2,149,731 | 913 | (20,674) | 168,282 | 2,475,865 |

| PARENT | | Issued and paid-up capital $000 | Cancelled share reserve $000 | Property, plant and equipment revaluation reserve $000 | Share-based payments reserve $000 | Cash flow hedge reserve $000 | Retained earnings $000 | Total $000 |
|---|---|---|---|---|---|---|---|---|
| **At 1 July 2009** | | 175,308 | (161,304) | 1,628,783 | 895 | (22,216) | 220,075 | 1,841,541 |
| Profit for the year | | - | - | - | - | - | 34,817 | 34,817 |
| Other comprehensive income/(loss) | | - | - | 7,862 | 11 | 3,317 | - | 11,190 |
| **Total comprehensive income/(loss)** | | - | - | 7,862 | 11 | 3,317 | 34,817 | 46,007 |
| Reclassification to retained earnings | 16 | - | - | (3,881) | - | - | 3,881 | - |
| Shares issued | 15 | 138,486 | - | - | - | - | - | 138,486 |
| Dividend paid | 9 | - | - | - | - | - | (103,367) | (103,367) |
| **At 30 June 2010** | | 313,794 | (161,304) | 1,632,764 | 906 | (18,899) | 155,406 | 1,922,667 |

The notes and accounting policies on pages 57 to 113 form part of and are to be read in conjunction with these financial statements.

# Statements of financial position

For the year ended 30 June 2011

| | Notes | GROUP 2011 $000 | GROUP 2010 $000 | PARENT 2011 $000 | PARENT 2010 $000 |
|---|---|---|---|---|---|
| **Non-current assets** | | | | | |
| Property, plant and equipment | 11 | 3,035,420 | 2,532,864 | 3,035,420 | 2,532,864 |
| Investment properties | 12 | 546,232 | 490,131 | 546,232 | 490,131 |
| Investment in associates | 8 | 197,635 | 161,867 | - | - |
| Investment in subsidiaries | 7 | - | - | 41,733 | 39,098 |
| Derivative financial instruments | 21 | 8,687 | 7,596 | 8,687 | 7,596 |
| Inter-company loans | 7 | - | - | 173,837 | 136,984 |
| Other non-current assets | | 775 | 775 | 775 | 775 |
| | | 3,788,749 | 3,193,233 | 3,806,684 | 3,207,448 |
| **Current assets** | | | | | |
| Cash | 13 | 46,146 | 36,052 | 46,146 | 36,052 |
| Inventories | | 67 | 102 | 67 | 102 |
| Prepayments | | 4,941 | 5,188 | 4,941 | 5,188 |
| Accounts receivable | 14 | 20,476 | 16,112 | 20,476 | 16,310 |
| Dividend receivable | 8 | 3,820 | 3,687 | - | - |
| Held for sale investment in associate – HMSC-AIAL Ltd | 8 | - | 6,782 | - | 6,782 |
| Derivative financial instruments | 21 | 2,011 | 902 | 2,011 | 902 |
| | | 77,461 | 68,825 | 73,641 | 65,336 |
| **Total assets** | | 3,866,210 | 3,262,058 | 3,880,325 | 3,272,784 |

The notes and accounting policies on pages 57 to 113 form part of and are to be read in conjunction with these financial statements.

| | Notes | GROUP 2011 $000 | GROUP 2010 $000 | PARENT 2011 $000 | PARENT 2010 $000 |
|---|---|---|---|---|---|
| **Shareholders' equity** | | | | | |
| Issued and paid-up capital | 15 | 338,386 | 313,245 | 338,917 | 313,794 |
| Cancelled share reserve | 16 | (161,304) | (161,304) | (161,304) | (161,304) |
| Property, plant and equipment revaluation reserve | 16 | 2,149,731 | 1,632,764 | 2,149,731 | 1,632,764 |
| Share-based payments reserve | 16 | 913 | 906 | 913 | 906 |
| Cash flow hedge reserve | 16 | (20,674) | (18,899) | (20,674) | (18,899) |
| Share of reserves of associates | 16 | (1,683) | (1,202) | - | - |
| Foreign currency translation reserve | 16 | 3,755 | (2,347) | - | - |
| Retained earnings | 16 | 158,407 | 150,471 | 168,282 | 155,406 |
| | | 2,467,531 | 1,913,634 | 2,475,865 | 1,922,667 |
| **Non-current liabilities** | | | | | |
| Term borrowings | 18 | 652,640 | 885,218 | 652,640 | 885,218 |
| Derivative financial instruments | 21 | 41,146 | 25,802 | 41,146 | 25,802 |
| Deferred tax liability | 6 | 205,112 | 172,083 | 205,117 | 172,088 |
| Other term liabilities | | 707 | 531 | 707 | 531 |
| | | 899,605 | 1,083,634 | 899,610 | 1,083,639 |
| **Current liabilities** | | | | | |
| Accounts payable and accruals | 17 | 52,775 | 45,983 | 52,534 | 45,815 |
| Taxation payable | | 10,277 | 8,709 | 16,294 | 10,565 |
| Derivative financial instruments | 21 | 2,784 | 2,751 | 2,784 | 2,751 |
| Short-term borrowings | 18 | 432,006 | 206,780 | 432,006 | 206,780 |
| Provisions | 24 | 1,232 | 567 | 1,232 | 567 |
| | | 499,074 | 264,790 | 504,850 | 266,478 |
| **Total equity and liabilities** | | 3,866,210 | 3,262,058 | 3,880,325 | 3,272,784 |

These financial statements were approved and adopted by the board on 23 August 2011.

Signed on behalf of the board by:

Joan Withers
Director, chair of the board

James Miller
Director, chair of the audit and risk committee

The notes and accounting policies on pages 57 to 113 form part of and are to be read in conjunction with these financial statements.

# Cash flow statements

For the year ended 30 June 2011

| | Notes | GROUP 2011 $000 | GROUP 2010 $000 | PARENT 2011 $000 | PARENT 2010 $000 |
|---|---|---|---|---|---|
| **Cash flow from operating activities** | | | | | |
| Cash was provided from: | | | | | |
| Receipts from customers | | 393,563 | 363,097 | 393,761 | 363,142 |
| Income tax refunded | | - | 3,233 | - | 3,233 |
| Interest received | | 1,460 | 1,678 | 1,460 | 1,678 |
| | | 395,023 | 368,008 | 395,221 | 368,053 |
| Cash was applied to: | | | | | |
| Payments to suppliers and employees | | (99,890) | (87,423) | (99,948) | (87,595) |
| Income tax paid | | (50,142) | (32,329) | (50,154) | (32,324) |
| Other taxes paid | | (289) | (248) | (289) | (248) |
| Interest paid | | (69,761) | (71,752) | (69,761) | (71,752) |
| | | (220,082) | (191,752) | (220,152) | (191,919) |
| **Net cash flow from operating activities** | 19 | 174,941 | 176,256 | 175,069 | 176,134 |
| **Cash flow from investing activities** | | | | | |
| Cash was provided from: | | | | | |
| Proceeds from sale of assets | | 30 | 2 | 30 | 2 |
| Proceeds from sale of investment in associate | 8 | 8,022 | - | 8,022 | - |
| Proceeds from settlement of net investment hedge | | 902 | - | - | - |
| Proceeds from settlement of fair value hedge of investment | | - | - | 902 | - |
| Dividend from associate | | 8,656 | - | - | - |
| | | 17,610 | 2 | 8,954 | 2 |
| Cash was applied to: | | | | | |
| Purchase of property, plant and equipment | | (35,595) | (42,897) | (35,595) | (42,897) |
| Interest paid – capitalised | | (1,197) | (2,102) | (1,197) | (2,102) |
| Expenditure on investment properties | | (31,587) | (8,338) | (31,587) | (8,338) |
| Investment in associates | 8 | (31,511) | (170,797) | - | - |
| Inter-company loan funding | | - | - | (22,951) | (130,797) |
| Investment in subsidiaries | | - | - | - | (40,000) |
| | | (99,890) | (224,134) | (91,330) | (224,134) |
| **Net cash applied to investing activities** | | (82,280) | (224,132) | (82,376) | (224,132) |
| **Cash flow from financing activities** | | | | | |
| Cash was provided from: | | | | | |
| Increase in share capital | 15 | 25,141 | 138,507 | 25,123 | 138,641 |
| Increase in borrowings | | 2,186,300 | 2,699,456 | 2,186,300 | 2,699,456 |
| | | 2,211,441 | 2,837,963 | 2,211,423 | 2,838,097 |
| Cash was applied to: | | | | | |
| Decrease in borrowings | | (2,183,000) | (2,685,000) | (2,183,000) | (2,685,000) |
| Dividends paid | 9 | (111,008) | (103,355) | (111,022) | (103,367) |
| | | (2,294,008) | (2,788,355) | (2,294,022) | (2,788,367) |
| **Net cash flow applied to financing activities** | | (82,567) | 49,608 | (82,599) | 49,730 |
| Net increase/(decrease) in cash held | | 10,094 | 1,732 | 10,094 | 1,732 |
| Opening cash brought forward | | 36,052 | 34,320 | 36,052 | 34,320 |
| **Ending cash carried forward** | 13 | 46,146 | 36,052 | 46,146 | 36,052 |

The notes and accounting policies on pages 57 to 113 form part of and are to be read in conjunction with these financial statements.

# Notes and accounting policies

For the year ended 30 June 2011

## 1. Corporate information

Auckland International Airport Limited (the company or Auckland Airport) is a company established under the Auckland Airport Act 1987 and was incorporated on 20 January 1988 under the Companies Act 1955. The original assets of Auckland Airport were vested in the company on 1 April 1988 and 13 November 1988 by an Order in Council of the New Zealand Government. The company commenced trading on 1 April 1988. The company was re-registered under the Companies Act 1993 on 6 June 1997. The company is an issuer for the purposes of the Financial Reporting Act 1993.

The financial statements presented are for Auckland Airport and its subsidiaries and associates (the group). The subsidiaries consist of Auckland Airport Limited, Auckland International Airport Limited Share Purchase Plan, Auckland Airport Holdings Limited and Auckland Airport Holdings (No. 2) Limited (incorporated on 7 July 2010).

Auckland Airport provides airport facilities and supporting infrastructure in Auckland, New Zealand. The group earns revenue from aeronautical activities, on-airport retail concessions and car parking facilities, stand-alone investment properties and other charges and rents associated with operating an airport. The group also holds investments in three other airports, being Cairns Airport and Mackay Airport in Queensland (NQA), Australia, as well as Queenstown Airport in New Zealand.

These financial statements were authorised for issue in accordance with a resolution of the directors on 23 August 2011.

## 2. Summary of significant accounting policies

### (a) Basis of preparation

The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand (NZ GAAP) and the requirements of the Companies Act 1993 and the Financial Reporting Act 1993. The financial statements have also been prepared on a historical cost basis, except for investment properties, land, buildings, runway, taxiways and aprons, infrastructural assets and derivative financial instruments, which have been measured at fair value.

The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and would otherwise be carried at cost, are adjusted to record changes in the fair values attributable to the risks that are being hedged.

These financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars ($000) unless otherwise indicated.

### (b) Statement of compliance

The financial statements have been prepared in accordance with NZ GAAP. They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. These financial statements also comply with International Financial Reporting Standards (IFRS).

### (c) New accounting standards and interpretations

New or revised standards and interpretations that have been approved but are not yet effective have not been adopted by the group for the annual reporting period ended 30 June 2011. The adoption of these standards and interpretations is not expected to have a material recognition or measurement impact on the group's financial statements. These will be applied when they become mandatory.

The amendment Deferred tax: Recovery of Underlying Assets (Amendments to NZ IAS 12) is effective for annual reporting periods beginning on or after 1 January 2012. The revised standard introduces an assumption that an investment property is recovered entirely through sale. The presumption can be rebutted if the investment property is held within a business model whose objective is to realise substantially all of the economic benefits embodied in the investment property over time, rather than through sale. The directors of Auckland Airport do rebutt the presumption of recovery through sale as it is expected that the company will receive the fair value of investment property by holding the investment property over that property's life. The company has not early adopted the amendment; however, early application of this standard would have no impact on the financial statements.

### (d) Basis of consolidation

The consolidated financial statements comprise the financial statements of the company and its subsidiaries.

Subsidiaries are all those entities, including special purpose entities, over which the group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity.

Subsidiaries are fully consolidated from the date on which control is obtained by the group and cease to be consolidated from the date on which control is transferred out of the group.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. This acquisition method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition. Acquisition-related costs are recognised in the income statement as incurred except for investments in associates where the acquisition costs are included in the initial cost of the associate.

The financial statements of the subsidiaries are prepared for the same reporting period as that of the parent company, using consistent accounting policies.

In preparing the consolidated financial statements, all inter-company balances and transactions, income and expenses, and profit and losses resulting from transactions within the group have been eliminated in full.

Investments in subsidiaries are recorded at cost in the company's financial statements, less any impairment.

# Notes and accounting policies (continued)

For the year ended 30 June 2011

### (e) Investments in associates

The equity method of accounting is used in the group financial statements for entities in which there is significant influence, but not controlling interests.

Under the equity method, the investment in the associate is carried in the group balance sheet at cost plus post-acquisition changes in the group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is not amortised. After application of the equity method, the group determines whether it is necessary to recognise any impairment loss with respect to the group's net investment in its associate.

The group's share of its associates' post-acquisition profits or losses is recognised in the group income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income and accumulated as a separate component of equity in the share of reserves of associates. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends received or receivable from the associate reduce the carrying amount of the investment.

When the group's share of losses in an associate equals or exceeds the carrying amount of an associate, including any unsecured long-term receivables and loans, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. The post-acquisition movements are included after adjustments to align the accounting policies with those of the group.

Investments in associates are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable, the asset is available for immediate sale in its present condition, the company is committed to the sale, and the sale is expected to be completed within one year of the date of classification.

Investments in associates classified as held for sale are measured at the lower of carrying amount and fair value less selling costs.

Investments in associates are recorded at cost less any impairment in the company's financial statements.

### (f) Segment reporting

An operating segment is a component of an entity, in respect of which discrete financial information is available, that engages in business activities from which it may earn revenues and incur expenses and whose operating results are regularly reviewed by the entity's chief operating decision-maker to make decisions about resources to be allocated to the segment and assess its performance.

Operating segments have been identified based on the information provided to the chief executive officer as the chief operating decision-maker.

Information about other business activities that are below the quantitative criteria are combined and disclosed separately.

### (g) Foreign currency translation

*Functional and presentation currency*

Both the functional and presentation currency of the company is New Zealand dollars ($).

*Transactions and balances*

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date.

Exchange rate differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition are recognised in the income statement in the period in which they arise.

*Translation of foreign operations*

The results of foreign operations that have a functional currency different from the presentation currency are translated to New Zealand dollars at the average exchange rate for the period. Assets (including goodwill) and liabilities are translated at exchange rates prevailing at the reporting date.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations and of foreign currency instruments designated as hedges of the net investment are recognised in other comprehensive income and accumulated in the foreign currency translation reserve.

### (h) Cash

Cash in the balance sheet comprises cash on hand, on-call deposits held with banks and short-term highly liquid investments.

For the purposes of the cash flow statement cash consists of cash, as defined above, net of outstanding bank overdrafts.

### (i) Cash flow statement

The following explains the terms used in the cash flow statement:

Operating activities are the principal revenue-producing activities of the group. Also included in this category are other activities that are not investing or financing activities.

Investing activities are the acquisition and disposal of long-term assets and other non-current investments not included in cash equivalents that have been made to generate future cash flows.

Financing activities are activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.

### (j) Accounts receivable

Accounts receivable are recognised and carried at the original invoice including Goods and Services Tax (GST) amount less an allowance for impairment for any uncollectible amounts.

An estimate of impairment for uncollectible amounts is made where there is objective evidence that collection of the full amount is no longer probable. Bad debts are written off when identified.

Trade receivables that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables include the group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past a credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with a default on receivables.

The carrying amount of trade receivables is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

### (k) Derivative financial instruments and hedging

The group uses derivative financial instruments such as interest rate swaps, interest forward rate agreements, forward foreign exchange contracts and cross-currency interest rate swaps to hedge its risks associated with interest rates and foreign currency. Such derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. Any gains or losses arising from changes in the fair value of derivatives, except for those that qualify as cash flow hedges, are taken directly to the income statement for the year.

The fair values of forward foreign exchange contracts are determined using forward exchange market rates at balance date. The fair values of interest rate swaps and interest forward rate agreements are determined using valuation techniques based on cash flows discounted to present value using current market interest rates. The fair value of cross-currency interest rate swaps are determined using both forward exchange market rates and valuation techniques based on cash flows discounted to present value using current market interest rates.

For the purposes of hedge accounting, hedges are classified as:

- fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability;
- cash flow hedges when they hedge the exposure to variability in cash flows that is attributable either to a particular risk associated with a recognised asset or liability or to a forecast transaction; or
- hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the group formally designates and documents the hedge relationship to which the group wishes to apply hedge accounting and the risk management objectives and strategies for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair values or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair values or cash flows. Hedges are assessed at the inception of the transaction and on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

The fair values of hedging derivatives are classified as non-current assets or liabilities when the remaining life of the hedged item is more than 12 months, and as current assets or liabilities when the remaining maturity of the hedged item is less than 12 months.

Hedges that meet the strict criteria for hedge accounting are accounted for as follows:

*Fair value hedges*

Fair value hedges are mostly applicable to fixed-coupon debt where the fair value of the debt changes through changes in market interest rates. For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged. The hedging instrument is also remeasured to fair value. Gains and losses from both are taken to the income statement.

The group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the group revokes the designation. The adjustment to the carrying amount of a hedged item, for which the effective interest method is used, is amortised over the period to maturity.

*Cash flow hedges*

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

Amounts taken to equity are transferred to the income statement when the hedged transaction affects the income statement.

If the forecast transaction is no longer expected to occur, amounts previously recognised in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction occurs.

*Hedges of a net investment*

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

### (l) Investments and other financial assets

Financial assets are currently classified as either financial assets at fair value through profit or loss, or loans and receivables. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The group determines the classification of its financial assets on initial recognition and, when appropriate, re-evaluates this designation at each balance date.

*Financial assets at fair value through profit or loss*

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Derivatives are classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in the income statement.

# Notes and accounting policies (continued)

For the year ended 30 June 2011

*Loans and receivables*

Loans and receivables, including trade receivables, are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the effective interest process.

**(m) Property, plant and equipment**

Properties held for use in the supply of goods and services, for administrative purposes or for rental to others for airport operation purposes are classified as property, plant and equipment.

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

Expenditure on an asset will be recognised as an asset if it is probable that future economic benefits will flow to the entity, and if the cost of the asset can be measured reliably. This principle applies for both initial and subsequent expenditure.

Vehicles, plant and equipment are carried at cost less accumulated depreciation and impairment losses.

Land, buildings and services, runway, taxiways and aprons, and infrastructural assets are carried at fair value, as determined by an independent registered valuer, less accumulated depreciation and any impairment losses recognised after the date of any revaluation. Land, buildings and services, runway, taxiways and aprons, and infrastructural assets acquired or constructed after the date of the latest revaluation are carried at cost, which approximates fair value. Revaluations are carried out with sufficient regularity to ensure that the carrying amount does not differ materially from fair value at the balance sheet date.

*Revaluations*

Revaluation increments are recognised in other comprehensive income and accumulated as a separate component of equity in the property, plant and equipment revaluation reserve, except to the extent that they reverse a revaluation decrease of the same asset previously recognised in the income statement, in which case the increase is recognised in the income statement.

Revaluation decreases are recognised in the income statement, except to the extent that they offset a previous revaluation increase for the same asset, in which case the decrease is recognised in other comprehensive income and accumulated as a separate component of equity in the property, plant and equipment revaluation reserve.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amounts of the assets and the net amounts are restated to the revalued amounts of the assets.

Upon disposal or derecognition, any revaluation reserve relating to the particular asset being disposed or derecognised is transferred to retained earnings.

*Depreciation*

Depreciation is calculated systematically on a straight-line basis to allocate the cost or revalued amount of an asset, less any residual value, over its estimated useful life.

The estimated useful lives of property, plant and equipment are as follows:

| | |
|---|---|
| Land (including reclaimed land) | Indefinite |
| Buildings and services | 5 – 50 years |
| Infrastructural assets | 5 – 80 years |
| Runway, taxiways and aprons | 12 – 40 years |
| Vehicles, plant and equipment | 3 – 10 years |

*Disposal*

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use.

Gains or losses arising on derecognition of an asset, calculated as the difference between the net disposal proceeds and the carrying amount of the asset, are included in the income statement in the year the asset is derecognised.

**(n) Investment properties**

Investment properties are properties which are held to earn rental income, for capital appreciation or both (including property being constructed or developed for future use as investment property). Land held for a currently undetermined future use is classified as investment property.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date. Gains or losses arising from changes in the fair values of investment properties are recognised in the income statement in the year in which they arise.

If a property is currently classified as investment property and is being redeveloped for further use as investment property, it continues to be classified as investment property.

Investment properties are derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of retirement or disposal.

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

A property transfer from investment property to property, plant and equipment or inventory has a deemed cost for subsequent accounting at its fair value at the date of change in use. If an item of property, plant and equipment becomes an investment property, the group accounts for such property as an investment property only subsequent to the date of change in use. When the group commences the construction or development of a self-constructed investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the income statement.

If the fair value of investment property under construction cannot be reliably determined but it is expected the fair value of the property can be reliably determined when construction is complete, then investment property under construction will be measured at cost until either its fair value can be reliably determined or construction is complete.

### (o) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Leases in which the group is the lessor and retains substantially all the risks and benefits of ownership of the leased asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are recognised as an asset and recognised as an expense over the lease term on the same basis as rental income. Rental income is recognised as revenue on a straight-line basis over the lease term.

### (p) Impairment of non-financial assets

Property, plant and equipment and investments in associates are assessed for indicators of impairment at each reporting date. They are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be fully recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Assets for which an impairment has previously been recorded are tested for possible reversal of the impairment when events or changes in circumstances indicate that the impairment may have reversed.

### (q) Accounts payable and accruals

Accounts payable and accruals are not interest bearing and are initially stated at their fair value and subsequently carried at amortised cost. Due to their short-term nature they are not discounted to net present value. The amounts are unsecured and are usually paid within 30 days of recognition.

### (r) Loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

### (s) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed. Other borrowing costs are expensed as incurred.

### (t) Provisions

Provisions are recognised when the group has a present legal or constructive obligation, as a result of a past event, that will probably require an outflow of resources to settle the obligation and the amount can be reliably estimated.

*Provision for noise mitigation*

Approval for a second runway, granted under the Manukau District Plan in 2001, included a number of obligations on the group to mitigate the impact of aircraft noise on the local community. The group 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 group has an obligation to fund the acoustic treatment of homes and schools when the offer of acoustic treatment is accepted. On acceptance of offers, the group records a provision for the estimated cost of fulfilling the obligation. The amount of the provision will change depending on the number of offers accepted, a revision in the estimate of the cost of offers and when the obligation is funded. As directly attributable costs of the second runway, the costs are capitalised to the extent that they are not recoverable from other parties.

### (u) Employee benefits

Liabilities for salaries and wages, annual leave, long-service leave and sick leave are accrued when earned by employees at rates expected to be incurred when the benefit is utilised.

Provisions for accumulating long-service leave and sick leave entitlements that are expected to be paid in future periods, but have not yet vested, are recognised to reflect the probability that benefits will vest.

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

### (v) Share-based payments

The group provides benefits to executives and employees of the group in the form of share-based payment transactions, whereby executives and employees render services in exchange for shares or rights over shares ('equity-settled transactions') and cash settlements based on the price of the group's shares ('cash-settled transactions').

*Equity-settled transactions*

The cost of these equity-settled transactions with employees (for awards granted after 7 November 2002 that were not vested at 1 July 2006) is measured by reference to the fair value of the equity instruments at the date at which they are granted. The cost of equity-settled transactions is recognised in the income statement, together with a corresponding increase in the share-based payment reserve in equity, over the period in which the performance and/or service conditions are fulfilled and ends on the date on which the relevant employees become fully entitled to the award.

At each subsequent reporting date until vesting, the cumulative charge to the income statement is the amortised portion of the fair value of the equity instrument adjusted for the estimate of the likelihood of the award vesting.

# Notes and accounting policies (continued)

For the year ended 30 June 2011

*Cash-settled transactions*

The cost of cash-settled transactions with employees is spread over the vesting period to recognise services received. The fair value of cash-settled transactions is determined at each reporting date and the change in fair value is recognised in the income statement. The fair value takes into account the terms and conditions on which the award was granted, and the extent to which employees have rendered services to date.

### (w) Revenue recognition

Revenue is recognised when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the entity.

*Rendering of services*

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

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

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

Revenue from public car parks is recognised on a cash-received basis. Revenue from staff car parks is recognised as revenue when the airport facilities are used.

*Interest income*

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

*Dividend income*

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

### (x) Income tax and other taxes

*Income tax*

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

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

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised only if it is probable that the company will be able to utilise the tax benefit.

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

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to offset current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

*Goods and services tax*

Revenues, expenses, assets and liabilities are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

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

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

### (y) Contributed equity

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

When the group reacquires its own shares, those treasury shares are deducted from equity and no gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of those shares. Any consideration or transaction costs paid or received are recognised directly in equity.

### (z) Earnings per share

Basic earnings per share is calculated as net profit attributable to equity holders of the company, divided by the weighted average number of ordinary shares during the reporting period, adjusted for any bonus elements in ordinary shares issued.

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after-income-tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares during the reporting period assumed to have been issued in relation to dilutive potential ordinary shares.

## 3. Significant accounting judgements, estimates and assumptions

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

**(a) Fair value of investment property**

The group remeasures the value of investment properties to fair value each year. The fair value of investment property is estimated by a panel of independent valuers, considered to be a best practice approach, which reflects market conditions at the balance sheet date. Changes to market conditions or to assumptions made in the estimation of fair value will result in changes to the fair value of investment property. The carrying value of investment property and the valuation methodology is disclosed in note 12.

**(b) Carrying value of property, plant and equipment**

The group records land, buildings and services, runway, taxiways and aprons, and infrastructural assets at fair value. Land, buildings and services, runway, taxiways and aprons, and infrastructural assets acquired or constructed after the date of the last revaluation are carried at cost, which approximates fair value. Revaluations are carried out, by independent valuers, with sufficient regularity to ensure that the carrying amount does not differ from the fair value at balance date. Judgement is required to determine whether the fair value of land, buildings and services, runway, taxiways and aprons, and infrastructural assets has changed materially from the last revaluation. The determination of fair value at the time of the revaluation requires estimates and assumptions based on market conditions at that time. Changes to estimates, assumptions or market conditions subsequent to a revaluation will result in changes to the fair value of property, plant and equipment. The carrying value of property, plant and equipment and the valuation methodologies and assumptions used to record the fair value of property, plant and equipment are disclosed in note 11.

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

As stated in 3(b) above, the group records land, buildings and services, runway, taxiways and aprons, and infrastructural assets at fair value.

The accounting policy of the group is that increases in assets from revaluations are recognised in other comprehensive income and accumulated as a separate component of equity in the property, plant and equipment revaluation reserve unless the revaluation increase reverses a previous revaluation decrease for an asset which was previously recognised in the income statement. In this case, the increase is recognised in the income statement. Also, decreases in assets from revaluations are recognised in the income statement unless the revaluation decrease reverses a previous valuation increase for an asset which was previously recognised in other comprehensive income and accumulated in the property, plant and equipment revaluation reserve. In this case, the decrease is also recognised in other comprehensive income and the property, plant and equipment revaluation reserve.

Due to the adoption of NZ IFRS in 2008, this accounting policy is different to the accounting policy at the last valuation in 2006 when valuation changes would go to the income statement only when the entire asset class decreased in value. The current accounting policy puts a significant focus on the revaluation impact on an individual asset as changes in asset value can give rise to different accounting treatments.

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

# Notes and accounting policies (continued)

For the year ended 30 June 2011

## 4. Segment information

### (a) Identification of reportable segments

The group has identified its operating segments based on the internal reports reviewed and used by the chief executive officer in assessing performance and in determining the allocation of resources.

The operating segments are identified by management based on the nature of services provided. Discrete financial information about each of these operating segments is reported to the chief executive officer at least monthly. The chief executive officer assesses performance of the operating segments based on EBITDA. Interest income and expenditure, taxation and depreciation are not allocated to operating segments as the company manages the cash position and assets at a group level.

### (b) Types of services provided

**Aeronautical**

The aeronautical business provides services that facilitate the movement of aircraft, passengers and cargo, and provides utility services that support the airport. The aeronautical business also earns rental revenue from space leased in facilities such as terminals.

**Retail**

The retail business provides services to the retailers within the terminals and provides car parking facilities for airport staff and passengers.

**Property**

The property business earns rental revenue from space leased on airport land outside the terminals including cargo buildings, hangars and stand alone investment properties.

### (c) Major customers

The group has a number of customers to which it provides services. The most significant customer in the 2011 financial year accounted for 24.1 percent of external revenue. In the 2010 financial year the most significant customer accounted for 24.6 percent of external revenue. The revenue from this customer is included in all three operating segments.

### (d) Geographical areas

Revenue from the reportable segments are derived in New Zealand, being the location where the sale occurred. Property, plant and equipment and investment property of the reportable segments are located in New Zealand. The investment in the stapled securities of North Queensland Airports and the investment in Queenstown Airport are not part of the reportable segments of the group.

| GROUP | Aeronautical $000 | Retail $000 | Property $000 | Total $000 |
|---|---|---|---|---|
| **Year ended 30 June 2011** | | | | |
| **External income** | | | | |
| Airfield income | 72,529 | - | - | 72,529 |
| Passenger services charge | 78,760 | - | - | 78,760 |
| Terminal services charge | 28,342 | - | - | 28,342 |
| Retail income | - | 111,150 | - | 111,150 |
| Rental income | 17,671 | 48 | 32,208 | 49,927 |
| Rates recoveries | 1,270 | 2,535 | - | 3,805 |
| Car park income | - | 33,435 | - | 33,435 |
| Other income | 5,611 | 4,994 | 3,800 | 14,405 |
| **Total segment income** | 204,183 | 152,162 | 36,008 | 392,353 |
| **Expenses** | | | | |
| Staff | 18,979 | 2,303 | 1,295 | 22,577 |
| Asset management, maintenance and airport operations | 25,519 | 4,604 | 1,542 | 31,665 |
| Rates and insurance | 2,521 | 1,120 | 3,461 | 7,102 |
| Marketing and promotions | 8,895 | 2,043 | 201 | 11,139 |
| Other | 4,878 | 1,065 | 915 | 6,858 |
| **Total segment expenses** | 60,792 | 11,135 | 7,414 | 79,341 |
| **Segment earnings before interest, taxation, depreciation, fair value adjustments and investments in associates (Segment EBITDAFI)** | 143,391 | 141,027 | 28,594 | 313,012 |
| Gain on sale of an associate | - | 1,240 | - | 1,240 |
| Investment property fair value increases | - | - | 21,640 | 21,640 |
| **Segment earnings before interest, taxation and depreciation (Segment EBITDA)** | 143,391 | 142,267 | 50,234 | 335,892 |

Income reported above represents income generated from external customers. There was no inter-segment income in the year (2010: $nil). The composition of the aeronautical segment has changed in the year ended 30 June 2011 to include aeronautical business development expenditure. This change reflects the approach of the chief executive in assessing performance by matching aeronautical expenditure for business development to the revenues earnt by the aeronautical division.

# Notes and accounting policies (continued)

For the year ended 30 June 2011

| GROUP | Aeronautical $000 | Retail $000 | Property $000 | Total $000 |
|---|---|---|---|---|
| **Year ended 30 June 2010** | | | | |
| **External income** | | | | |
| Airfield income | 66,715 | - | - | 66,715 |
| Passenger services charge | 73,252 | - | - | 73,252 |
| Terminal services charge | 27,814 | - | - | 27,814 |
| Retail income | - | 95,817 | - | 95,817 |
| Rental income | 17,226 | - | 31,307 | 48,533 |
| Rates recoveries | 160 | 753 | 2,069 | 2,982 |
| Car park income | - | 31,057 | - | 31,057 |
| Other income | 6,445 | 4,733 | 1,124 | 12,302 |
| **Total segment income** | 191,612 | 132,360 | 34,500 | 358,472 |
| **Expenses** | | | | |
| Staff | 19,001 | 2,157 | 1,353 | 22,511 |
| Asset management, maintenance and airport operations | 24,085 | 4,181 | 1,587 | 29,853 |
| Rates and insurance | 1,300 | 1,155 | 3,125 | 5,580 |
| Marketing and promotions | 2,291 | 1,785 | 184 | 4,260 |
| Other | 3,612 | 1,089 | 1,080 | 5,781 |
| **Total segment expenses** | 50,289 | 10,367 | 7,329 | 67,985 |
| **Segment earnings before interest, taxation, depreciation, fair value adjustments and investments in associates (Segment EBITDAFI)** | 141,321 | 121,993 | 27,171 | 290,485 |
| Share of profit of associate | - | 890 | - | 890 |
| Investment property fair value increases | - | - | 9,469 | 9,469 |
| **Segment earnings before interest, taxation and depreciation (Segment EBITDA)** | 141,321 | 122,883 | 36,640 | 300,844 |

**(d) Segment reconciliation of segment income to income statement:**

| | GROUP 2011 $000 | GROUP 2010 $000 |
|---|---|---|
| **Segment income** | 392,353 | 358,472 |
| Interest income | 1,460 | 1,678 |
| Other revenue | 3,910 | 2,963 |
| **Total income** | 397,723 | 363,113 |

**(e) Segment reconciliation of segment EBITDA to income statement:**

| | GROUP 2011 $000 | GROUP 2010 $000 |
|---|---|---|
| **Segment EBITDA** | 335,892 | 300,844 |
| Unallocated external operating income from continuing operations | 5,368 | 4,641 |
| Unallocated external operating expenses from continuing operations | (20,151) | (18,815) |
| Share of profit/(loss) of an associate | 4,755 | (792) |
| Depreciation | (56,843) | (55,736) |
| Derivative fair value changes | 3,503 | - |
| Property, plant and equipment fair value movements | (63,465) | - |
| Interest expense and other finance costs | (70,417) | (71,938) |
| **Profit before taxation** | 138,642 | 158,204 |

The income included in unallocated external operating income from continuing operations consists mainly of interest from third-party financial institutions and income from telecommunication services.

# Notes and accounting policies (continued)

For the year ended 30 June 2011

## 5. Profit for the year

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | $000 | $000 | $000 | $000 |
| **Staff expenses comprise:** | | | | |
| Salaries and wages | 25,926 | 24,771 | 25,926 | 24,771 |
| Other employee benefits | 3,004 | 2,509 | 3,004 | 2,509 |
| Share-based payment (refer note 26) | 753 | 228 | 753 | 228 |
| Defined contribution superannuation | 697 | 640 | 697 | 640 |
| Restructuring costs | - | 1,072 | - | 1,072 |
| Other staff costs | 2,227 | 2,354 | 2,227 | 2,354 |
| | 32,607 | 31,574 | 32,607 | 31,574 |
| **Other expenses include:** | | | | |
| Audit fees for statutory audit and half year review | 210 | 207 | 210 | 207 |
| Auditor's regulatory audit and AGM fees | 49 | 56 | 49 | 56 |
| Auditor's tax compliance fees | 45 | 71 | 45 | 71 |
| Directors' fees | 987 | 920 | 987 | 920 |
| Donations | 106 | 12 | 106 | 12 |
| Bad and doubtful debts written off | 22 | 120 | 22 | 120 |
| Doubtful debts - change in provision | 60 | 157 | 60 | 157 |
| Loss on disposal of property, plant and equipment | 114 | 172 | 114 | 172 |
| **Interest expense and other finance costs comprise:** | | | | |
| Interest on bonds and related hedging instruments | 36,853 | 33,613 | 36,853 | 33,613 |
| Interest on bank facilities and related hedging instruments | 27,213 | 35,293 | 27,213 | 35,293 |
| Interest on USPP notes and related hedging instruments | 2,400 | - | 2,400 | - |
| Interest on commercial paper and related hedging instruments | 5,148 | 5,134 | 5,148 | 5,134 |
| | 71,614 | 74,040 | 71,614 | 74,040 |
| Less capitalised borrowing costs (refer note 11) | (1,197) | (2,102) | (1,197) | (2,102) |
| | 70,417 | 71,938 | 70,417 | 71,938 |

Interest on financial liabilities that are not fair value through profit or loss was $62.316 million for the year ended 30 June 2011 (2010: $57.603 million).

This represents the interest charged on bonds, bank facilities and commercial paper and associated fees and issue costs, but excludes interest on related hedging instruments.

| | GROUP 2011 | GROUP 2010 | PARENT 2011 | PARENT 2010 |
|---|---|---|---|---|
| Interest rate for capitalised borrowing costs | 6.58% | 6.86% | 6.58% | 6.86% |
| **Interest income includes:** | | | | |
| External interest income | 1,460 | 1,678 | 1,460 | 1,678 |
| Inter-company interest | - | - | 13,902 | 6,187 |
| | 1,460 | 1,678 | 15,362 | 7,865 |
| **Derivative fair value increase includes:** | | | | |
| Interest basis swaps transacted as hedges but not qualifying for hedge accounting | 3,503 | - | 3,503 | - |

## 6. Taxation

| | GROUP 2011 $000 | GROUP 2010 $000 | PARENT 2011 $000 | PARENT 2010 $000 |
|---|---|---|---|---|
| **(a) Income tax expense** | | | | |
| The major components of income tax expense are: | | | | |
| Current income tax | | | | |
| Current income tax charge | 51,792 | 43,153 | 55,953 | 45,009 |
| Income tax over-provided in prior year | (87) | (1,115) | (87) | (1,115) |
| Deferred income tax | | | | |
| Movement in deferred tax | (13,824) | 2,503 | (13,824) | 2,503 |
| Reduction in future corporate tax rate (excluding buildings) | - | (435) | - | (435) |
| **Other taxation expense** | 37,881 | 44,106 | 42,042 | 45,962 |
| Movement in deferred tax related to legislative adjustment to tax depreciation on buildings | - | 89,296 | - | 89,296 |
| Reduction in future corporate tax rate | - | (4,892) | - | (4,892) |
| **Deferred taxation adjustment on buildings** | - | 84,404 | - | 84,404 |
| **Total taxation expense** | 37,881 | 128,510 | 42,042 | 130,366 |

| | GROUP 2011 $000 | GROUP 2010 $000 | PARENT 2011 $000 | PARENT 2010 $000 |
|---|---|---|---|---|
| **(b) Deferred taxation taken directly to other comprehensive income** | | | | |
| Tax on the property, plant and equipment revaluation reserve | (47,548) | 260 | (47,548) | 260 |
| Tax effect of movements in the cash flow hedge reserve | 690 | (1,647) | 690 | (1,647) |
| Reduction in future corporate tax rate | - | 7,077 | - | 7,077 |
| **Deferred tax credit reported in equity** | (46,858) | 5,690 | (46,858) | 5,690 |

# Notes and accounting policies (continued)

For the year ended 30 June 2011

| | GROUP 2011 $000 | GROUP 2010 $000 | PARENT 2011 $000 | PARENT 2010 $000 |
|---|---|---|---|---|
| **(c) Reconciliation between prima facie taxation and tax expense** | | | | |
| Profit before taxation | 138,642 | 158,204 | 147,757 | 165,183 |
| Prima facie taxation at 30% | 41,593 | 47,461 | 44,327 | 49,555 |
| Adjustments: | | | | |
| Share of associate's tax paid earnings | (1,427) | (29) | - | (267) |
| Revaluation of land with no tax impact | (3,036) | (1,822) | (3,036) | (1,822) |
| Income tax over-provided in prior year | (87) | (1,115) | (87) | (1,115) |
| Other | 838 | 46 | 838 | 46 |
| Reduction in future corporate tax rate | - | (435) | - | (435) |
| **Other taxation expense** | 37,881 | 44,106 | 42,042 | 45,962 |
| Movement in deferred tax related to legislative adjustment to tax depreciation on buildings | - | 89,296 | - | 89,296 |
| Reduction in future corporate tax rate | - | (4,892) | - | (4,892) |
| **Deferred taxation adjustment on buildings** | - | 84,404 | - | 84,404 |
| **Total taxation expense** | 37,881 | 128,510 | 42,042 | 130,366 |

| | Balance 1 July 2010 $000 | Movement in income $000 | Movement in other comprehensive income $000 | Balance 30 June 2011 $000 |
|---|---|---|---|---|
| (d) Deferred tax assets and liabilities | | | | |
| Group | | | | |
| *Deferred tax liabilities* | | | | |
| Property, plant and equipment | 152,047 | (17,029) | 47,548 | 182,566 |
| Investment properties | 29,555 | 3,191 | - | 32,746 |
| Other | 186 | (59) | - | 127 |
| **Deferred tax liabilities** | 181,788 | (13,897) | 47,548 | 215,439 |
| *Deferred tax assets* | | | | |
| Cash flow hedge | 7,349 | - | 690 | 8,039 |
| Provisions and accruals | 2,356 | (68) | - | 2,288 |
| **Deferred tax assets** | 9,705 | (68) | 690 | 10,327 |
| **Net deferred tax liability** | 172,083 | (13,829) | 46,858 | 205,112 |

| | Balance 1 July 2009 $000 | Movement in income $000 | Movement in other comprehensive income $000 | Balance 30 June 2010 $000 |
|---|---|---|---|---|
| **Group** | | | | |
| *Deferred tax liabilities* | | | | |
| Property, plant and equipment | 92,410 | 67,499 | (7,862) | 152,047 |
| Investment properties | 10,719 | 18,836 | - | 29,555 |
| Other | 136 | 50 | - | 186 |
| **Deferred tax liabilities** | 103,265 | 86,385 | (7,862) | 181,788 |
| *Deferred tax assets* | | | | |
| Cash flow hedge | 9,521 | - | (2,172) | 7,349 |
| Provisions and accruals | 2,442 | (86) | - | 2,356 |
| **Deferred tax assets** | 11,963 | (86) | (2,172) | 9,705 |
| **Net deferred tax liability** | 91,302 | 86,471 | (5,690) | 172,083 |

| | Balance 1 July 2010 $000 | Movement in income $000 | Movement in other comprehensive income $000 | Balance 30 June 2011 $000 |
|---|---|---|---|---|
| **Parent** | | | | |
| *Deferred tax liabilities* | | | | |
| Property, plant and equipment | 152,047 | (17,029) | 47,548 | 182,566 |
| Investment properties | 29,555 | 3,191 | - | 32,746 |
| Other | 186 | (59) | - | 127 |
| **Deferred tax liabilities** | 181,788 | (13,897) | 47,548 | 215,439 |
| *Deferred tax assets* | | | | |
| Cash flow hedge | 7,349 | - | 690 | 8,039 |
| Provisions and accruals | 2,351 | (68) | - | 2,283 |
| **Deferred tax assets** | 9,700 | (68) | 690 | 10,322 |
| **Net deferred tax liability** | 172,088 | (13,829) | 46,858 | 205,117 |

# Notes and accounting policies (continued)

For the year ended 30 June 2011

| | Balance 1 July 2009 $000 | Movement in income $000 | Movement in other comprehensive income $000 | Balance 30 June 2010 $000 |
|---|---|---|---|---|
| **Parent** | | | | |
| *Deferred tax liabilities* | | | | |
| Property, plant and equipment | 92,410 | 67,499 | (7,862) | 152,047 |
| Investment properties | 10,719 | 18,836 | - | 29,555 |
| Other | 136 | 50 | - | 186 |
| **Deferred tax liabilities** | 103,265 | 86,385 | (7,862) | 181,788 |
| *Deferred tax assets* | | | | |
| Cash flow hedges | 9,521 | - | (2,172) | 7,349 |
| Provisions and accruals | 2,437 | (86) | - | 2,351 |
| **Deferred tax assets** | 11,958 | (86) | (2,172) | 9,700 |
| **Net deferred tax liability** | 91,307 | 86,471 | (5,690) | 172,088 |

The reduction in the corporate tax rate from 30 percent to 28 percent, effective for the company 1 July 2011, has been taken into account in calculating the value of deferred tax. The effect of the change is recognised in the income statement and in other comprehensive income, consistent with the underlying items that give rise to the deferred tax.

At 30 June 2011, there are no unrecognised temporary differences associated with the group's investments in associates.

The change in tax legislation in May 2010 removes the ability to depreciate building structures for income tax purposes when the life of the building is greater than 50 years. This resulted in a one-off, non-cash accounting adjustment in the year ended 30 June 2010, increasing the deferred tax liability and deferred tax expense. The increase in deferred tax liability and expense was $84.404 million, including the future change in the income tax rate from 30 percent to 28 percent, and had no impact on the company's underlying profitability and cash flows in the year ended 30 June 2010. In effect, the accounting charge represented a one-off loss relating to the forfeiture of all the future tax relief on expenditure which was incurred before the changes were made. The accounting treatment will be neutral in the long-term as the loss will unwind over the life of the underlying assets.

The group calculates the value of deferred taxation in accordance with *NZ IAS 12 Income Taxes* (IAS 12). IAS 12 required the adjustment to deferred taxation by $84.404 million for the change in tax depreciation on existing buildings.

## (e) Imputation credits

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2011 $000 | 2010 $000 | 2011 $000 | 2010 $000 |
| Balance at beginning of the year | 8,721 | 23,913 | 8,721 | 23,890 |
| Income tax paid | 46,500 | 29,000 | 46,500 | 29,000 |
| Credits attached to dividends paid | (43,950) | (40,959) | (43,500) | (40,959) |
| Credits attached to disposal of associate | 532 | - | 532 | - |
| Income tax refunded | - | (3,233) | - | (3,233) |
| **Balance at end of the year** | 11,803 | 8,721 | 12,253 | 8,698 |

## 7. Subsidiary companies

The group financial statements include the financial statements of Auckland International Airport Limited and the subsidiaries listed in the following table:

| | Country of incorporation | % equity interest 2011 | 2010 |
|---|---|---|---|
| Auckland Airport Limited | New Zealand | 100.00 | 100.00 |
| Auckland International Airport Limited Share Purchase Plan | New Zealand | - | - |
| Auckland Airport Holdings Limited | New Zealand | 100.00 | 100.00 |
| Auckland Airport Holdings (No. 2) Limited | New Zealand | 100.00 | - |

**Auckland Airport Limited**
Auckland Airport Limited was established on 23 July 2007 and holds the investment in Auckland Airport Hotel Limited Partnership. At 30 June 2011 a loan of $6.200 million (2010: $2.776 million) was owing from Auckland Airport Limited to Auckland International Airport Limited. No repayment was made during the year. The loan is interest free and repayable on demand.

**Auckland International Airport Limited Share Purchase Plan**
Auckland International Airport Limited Share Purchase Plan (purchase plan) was established by the company 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 is consolidated as part of the group because the company has the power to govern the purchase plan due to the trustees of the purchase plan being employees of the company. At 30 June 2011 a loan of $0.095 million (2010: $0.223 million) was owing from Auckland International Airport Limited Share Purchase Plan to Auckland International Airport Limited. The loan is interest free and repayable on demand.

**Auckland Airport Holdings Limited**
Auckland Airport Holdings Limited was established on 22 December 2009 and holds the investment in North Queensland Airports. Auckland International Airport Limited holds $40.000 million (2010: $40.000 million) of share capital in Auckland Airport Holdings Limited. The loan outstanding at year end is $139.464 million (2010: $134.208 million) from Auckland International Airport Limited to Auckland Airport Holdings Limited. Repayment of $8.756 million was made during the year by way of dividends from North Queensland Airports. The loan is repayable on demand. Interest charged was $13.902 million (2010: $6.187 million) at a rate of 10.5 percent.

**Auckland Airport Holdings (No. 2) Limited**
Auckland Airport Holdings (No. 2) Limited was established on 7 July 2010 and holds the investment in Queenstown Airport Corporation Limited. During the year, a loan of $28.079 million (2010: $nil) was made from Auckland International Airport Limited to Auckland Airport Holdings (No. 2) Limited. No repayment was made during the year. The loan is interest free and repayable on demand.

# Notes and accounting policies (continued)

For the year ended 30 June 2011

## 8. Investment in associates

Movement in the group's carrying amount of investments in associates:

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | $000 | $000 | $000 | $000 |
| Investment in associates at beginning of the year | 168,649 | 5,892 | 6,782 | 5,892 |
| New investments in associates | 31,513 | 170,797 | - | - |
| Disposals of investments in associates | (6,782) | - | (6,782) | - |
| Share of profit after tax of associates | 4,755 | 890 | - | 890 |
| Share of loss after tax of associates | - | (792) | - | - |
| Share of reserves of associates | (481) | (1,202) | - | - |
| Share of dividends received | (8,756) | (3,687) | - | - |
| Foreign currency translation | 8,737 | (3,249) | - | - |
| **Investment in associates at end of the year** | 197,635 | 168,649 | - | 6,782 |
| Amount of goodwill in carrying amount of investment at beginning of the year | 92,462 | - | - | - |
| Amount of goodwill in carrying amount of investment at end of the year | 97,497 | 92,462 | - | - |

The carrying value of investments in associates summarised by the underlying investment is outlined below:

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | $000 | $000 | $000 | $000 |
| HMSC-AIAL Limited | - | 6,782 | - | 6,782 |
| Auckland Airport Hotel Limited Partnership | 6,221 | 2,776 | - | - |
| Stapled Securities of North Queensland Airports Limited | 162,316 | 159,091 | - | - |
| Queenstown Airport Corporation Limited | 29,098 | - | - | - |
| | 197,635 | 168,649 | - | 6,782 |

### (a) Investments in associates held for sale – HMSC-AIAL Limited

On 18 August 2010 Auckland Airport sold its 50 percent share of HMSC-AIAL Limited to Host International, Inc. HMSC-AIAL Limited operates food and beverage facilities at the international terminal of Auckland Airport. Host International, Inc was the other 50 percent shareholder in HMSC-AIAL Limited. The consideration received for the sale was $8.022 million. The carrying value of the investment in the associate, HMSC-AIAL Limited, was $6.782 million. HMSC-AIAL Limited was in the retail operating segment.

HMSC-AIAL Limited has a balance date of 31 December. Financial information for HMSC-AIAL Limited has been extracted from audited accounts for the period to 31 December and management accounts for the balance of the year to 30 June. The company did not receive a dividend from HMSC-AIAL Limited during the year (2010: $nil).

The following tables illustrate the financial information of HMSC-AIAL Limited for the 2010 year as the group sold its 50 percent share in 2011:

**Extract from HMSC-AIAL Limited's statement of comprehensive income:**

| | 2010 $000 |
|---|---|
| Revenue | 15,354 |
| Expenses | 12,185 |
| **Earnings before interest, taxation and depreciation (EBITDA)** | 3,169 |
| Depreciation and amortisation expense | (648) |
| Income tax expense | (743) |
| **Profit after tax and total comprehensive income for the period** | 1,778 |

**Extract from HMSC-AIAL Limited's statement of financial position:**

| | 2010 $000 |
|---|---|
| Current assets | 11,912 |
| Non-current assets | 3,973 |
| **Total assets** | 15,885 |
| | |
| Current liabilities | 2,321 |
| Shareholders' equity | 13,564 |
| **Total equity and liabilities** | 15,885 |

The carrying value of HMSC-AIAL Limited in the Auckland Airport financial statements is outlined below:

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2011 $000 | 2010 $000 | 2011 $000 | 2010 $000 |
| Investment in associate at beginning of the year | 6,782 | 5,892 | 6,782 | 5,892 |
| Share of surplus of associate | - | 1,261 | - | 1,261 |
| Taxation (credit)/expense | - | 371 | - | 371 |
| Share of surplus after tax of associate | - | 890 | - | 890 |
| Less consideration received for the sale | (8,022) | - | (8,022) | - |
| Plus gain on sale | 1,240 | - | 1,240 | - |
| Net (deduction)/addition to investment carrying value | (6,782) | 890 | (6,782) | 890 |
| Investment in associate at end of the year | - | 6,782 | - | 6,782 |

# Notes and accounting policies (continued)

For the year ended 30 June 2011

### (b) Investment in associates – Auckland Airport Hotel Limited Partnership

The limited partnership formed by AAPC Properties Pty Limited (Accor Hospitality), Tainui Group Holdings Limited and Auckland Airport developed and now operates a 4-star plus, 263-roomed Novotel hotel adjacent to the international terminal at Auckland Airport. The hotel was opened on 27 May 2011. The Novotel hotel is 20 percent owned by Auckland Airport.

The remaining 80 percent is owned in aggregate by Accor Hospitality and Tainui Group Holdings Limited.

Auckland Airport Hotel Limited Partnership has a balance date of 31 March. Financial information for Auckland Airport Hotel Limited Partnership has been extracted from audited accounts for the period to 31 March and management accounts for the balance of the year to 30 June.

The carrying value of Auckland Airport Hotel Limited partnership in the Auckland Airport financial statements is outlined below:

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2011 $000 | 2010 $000 | 2011 $000 | 2010 $000 |
| Investment in associate at beginning of the year | 2,776 | - | - | - |
| Cost of investment in associate | 3,424 | 2,776 | - | - |
| Share of surplus after tax of associate | 21 | - | - | - |
| Investment in associate at end of the year | 6,221 | 2,776 | - | - |

The following tables illustrate the financial information of the Auckland Airport Hotel Limited Partnership for the year ended 30 June 2011 before adjustments to align the accounting policies to the accounting policies of the group.

**Extract from Auckland Airport Hotel Limited Partnership's statement of comprehensive income:**

| | 2011 $000 |
|---|---|
| Revenue | 979 |
| Expenses | 923 |
| **Earnings before interest, taxation, depreciation and amortisation (EBITDA)** | 56 |
| Depreciation and amortisation expense | 439 |
| **Earnings before interest and taxation (EBIT)** | (383) |
| Interest expense | 159 |
| **Profit/(loss) before tax** | (542) |
| Income tax (benefit)/expense | - |
| **Profit/(loss) after taxation** | (542) |
| Other comprehensive income | - |
| **Total comprehensive profit/(loss) for the period** | (542) |

**Extract from Auckland Airport Hotel Limited Partnership's statement of financial position:**

| | 2011 $000 |
|---|---|
| Current assets | 1,247 |
| Non-current assets | 58,119 |
| **Total assets** | 59,366 |
| | |
| Current liabilities | 1,875 |
| Non-current liabilities | 27,034 |
| Shareholders' equity | 30,457 |
| **Total equity and liabilities** | 59,366 |

### (c) Investment in associates – Stapled Securities of North Queensland Airports

Auckland Airport group owns a 24.55 percent stake in North Queensland Airports, the operator of Cairns and Mackay Airports in Queensland. The company purchased the stake in North Queensland Airports on 13 January 2010 for AU$132.8 million (NZ$166.7 million).

The following tables illustrate the financial information of North Queensland Airports Limited for the 2011 financial year and the part year 13 January 2010 to 30 June 2010:

**Extract from North Queensland Airports' statement of comprehensive income:**

| | 2011 AU$000 | January to June 2010 AU$000 |
|---|---|---|
| Revenue | 102,698 | 34,208 |
| Expenses | 43,213 | 19,275 |
| **Earnings before interest, taxation, depreciation and fair value adjustments (EBITDAF)** | 59,485 | 14,933 |
| Investment property fair value increase | 13,687 | 4,352 |
| **Earnings before interest, taxation and depreciation (EBITDA)** | 73,172 | 19,285 |
| Depreciation and amortisation expense | 21,868 | 9,418 |
| **Earnings before interest and taxation (EBIT)** | 51,304 | 9,867 |
| Interest expense | 37,532 | 13,256 |
| **Profit/(loss) before taxation** | 13,772 | (3,389) |
| Income tax expense/(benefit) | 2,445 | (989) |
| **Profit/(loss) after taxation** | 11,327 | (2,400) |
| Other comprehensive loss | (1,101) | (3,860) |
| **Total comprehensive profit/(loss) for the period** | 10,226 | (6,260) |

**Extract from North Queensland Airports Limited's statement of financial position:**

| | 2011 AU$000 | 2010 AU$000 |
|---|---|---|
| Current assets | 41,736 | 42,188 |
| Non-current assets | 641,038 | 621,370 |
| Goodwill | 231,066 | 230,324 |
| **Total assets** | 913,840 | 893,882 |
| Current liabilities | 480,461 | 38,478 |
| Non-current liabilities | 422 | 404,355 |
| Shareholders' equity | 432,957 | 451,049 |
| **Total equity and liabilities** | 913,840 | 893,882 |

# Notes and accounting policies (continued)

For the year ended 30 June 2011

The carrying value of North Queensland Airports in the Auckland Airport financial statements is outlined below:

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2011 $000 | 2010 $000 | 2011 $000 | 2010 $000 |
| Investment in associate at beginning of the year | 159,091 | - | - | - |
| Cost of investment in associate, including transaction costs | 10 | 168,021 | - | - |
| Share of profit/(loss) after tax of associate | 3,624 | (792) | - | - |
| Share of reserves of associate | (390) | (1,202) | - | - |
| Dividends received or receivable | (8,756) | (3,687) | - | - |
| Foreign currency translation | 8,737 | (3,249) | - | - |
| Investment in associate at end of the year | 162,316 | 159,091 | - | - |
| Amount of goodwill in carrying amount of investment at beginning of the year | 92,462 | - | - | - |
| Amount of goodwill in carrying amount of investment at end of the year | 97,497 | 92,462 | - | - |

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

The directors of North Queensland Airports declared dividends of AU$27.498 million throughout the year ended 30 June 2011 (part year ended 30 June 2010: AU$12.200 million). The group's share of the dividend is AU$6.751 million (NZ$8.756 million) (2010: AU$2.995 million, NZ$3.687 million) and the amount receivable at year end was AU$2.946 million (NZ$3.820 million), (2010: AU$2.995 million, NZ$3.687 million).

**(d) Investment in associates – Queenstown Airport Corporation Limited**

On 8 July 2010 Auckland Airport invested $27.7 million in 4.0 million new shares (24.99 percent of the increased shares on issue) in Queenstown Airport Corporation Limited (Queenstown Airport) and formed a strategic alliance. The strategic alliance commits both airports to work together to drive more tourist traffic into New Zealand and through the two airports.

The airport companies will also pursue operational synergies and benefits in other areas such as aeronautical operations, retailing activities and property development.

The following tables illustrate the financial information of Queenstown Airport for the 2011 financial year:

**Extract from Queenstown Airport's statement of comprehensive income:**

| | 2011 $000 |
|---|---|
| Revenue | 15,662 |
| Expenses | 5,781 |
| **Earnings before interest, taxation and depreciation (EBITDA)** | 9,881 |
| Depreciation and amortisation expense | 2,938 |
| **Earnings before interest and taxation (EBIT)** | 6,943 |
| Interest expense | 768 |
| **Profit before tax** | 6,175 |
| Income tax expense | 1,738 |
| **Profit after taxation** | 4,437 |
| Other comprehensive income | (356) |
| **Total comprehensive income for the period** | 4,081 |

**Extract from Queenstown Airport's statement of financial position:**

| | 2011 $000 |
|---|---|
| Current assets | 2,357 |
| Non-current assets | 144,829 |
| **Total assets** | 147,186 |
| | |
| Current liabilities | 7,527 |
| Non-current liabilities | 19,401 |
| Shareholders' equity | 120,258 |
| **Total equity and liabilities** | 147,186 |

The carrying value of Queenstown Airport in the Auckland Airport financial statements is outlined below:

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2011 $000 | 2010 $000 | 2011 $000 | 2010 $000 |
| Investment in associate at beginning of the year | - | - | - | - |
| Cost of investment in associate, including transaction costs | 28,079 | - | - | - |
| Share of profit after tax of associate | 1,108 | - | - | - |
| Share of reserves of associate | (89) | - | - | - |
| Investment in associate at end of the year | 29,098 | - | - | - |

## 9. Distribution to shareholders

| | Dividend payment date | GROUP 2011 $000 | GROUP 2010 $000 | PARENT 2011 $000 | PARENT 2010 $000 |
|---|---|---|---|---|---|
| 2009 final dividend of 4.45 cps | 23 October 2009 | - | 54,517 | - | 54,523 |
| 2010 interim dividend of 3.75 cps | 31 March 2010 | - | 48,838 | - | 48,844 |
| 2010 final dividend of 4.45 cps | 23 October 2010 | 58,305 | - | 58,312 | - |
| 2011 interim dividend of 4.00 cps | 1 April 2011 | 52,703 | - | 52,710 | - |
| **Total dividends paid** | | 111,008 | 103,355 | 111,022 | 103,367 |

Supplementary dividends of $3.637 million (2010: $3.340 million) are not included in the above dividends as the company receives an equivalent tax credit from the Inland Revenue.

On 23 August 2011, the directors approved the payment of a 2011 fully imputed final dividend of 4.70 cents per share (2010: 4.45 cents per share) to be paid on 21 October 2011.

The interim and final dividends relating to the 2011 financial year total 8.70 cents per share (2010: 8.20 cents per share).

# Notes and accounting policies (continued)

For the year ended 30 June 2011

## 10. Earnings per share

The earnings used in calculating basic and diluted earnings per share is $100.761 million (2010: $29.694 million).

Earnings per share includes the income statement impact of changes to the fair value of investment property, changes to the fair value of property, plant and equipment, changes to the fair value of derivatives, the gain on the sale of associates and the impact on deferred taxation related to the legislative change on tax deductions for building depreciation in the prior year.

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

| | GROUP | |
|---|---|---|
| | 2011 Shares | 2010 Shares |
| For basic earnings per share | 1,316,374,181 | 1,257,346,731 |
| Effect of dilution of share options | - | 290,247 |
| **For dilutive earnings per share** | 1,316,374,181 | 1,257,636,978 |

Options granted to executives as described in note 26 are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent they are dilutive. These options have not been included in the determination of basic earnings per share.

The 2011 reported basic and diluted earnings per share is 7.65 cents (2010: 2.36 cents).

## 11. Property, plant and equipment

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

| | GROUP AND PARENT | | | | | |
|---|---|---|---|---|---|---|
| Year ended 30 June 2011 | Land $000 | Buildings and services $000 | Infrastructure $000 | Runway, taxiways and aprons $000 | Vehicles, plant and equipment $000 | Total $000 |
| **Balances as at 1 July 2010** | | | | | | |
| At fair value | 1,498,579 | 624,251 | 257,529 | 266,010 | - | 2,646,369 |
| At cost | - | - | - | - | 68,085 | 68,085 |
| Work in progress at cost | - | 12,989 | 2,131 | 27,161 | 1,421 | 43,702 |
| Accumulated depreciation | - | (101,623) | (33,132) | (42,144) | (48,393) | (225,292) |
| Balances as at 1 July 2010 | 1,498,579 | 535,617 | 226,528 | 251,027 | 21,113 | 2,532,864 |
| Additions | - | 12,960 | 6,206 | 6,884 | 8,680 | 34,730 |
| Transfers from/(to) investment property | 7,444 | (1,748) | (115) | - | - | 5,581 |
| Transfers within property, plant and equipment | - | - | 1,643 | - | (1,643) | - |
| Disposals | - | - | (22) | (106) | (17) | (145) |
| Revaluation movements | 403,323 | 149 | 55,630 | 60,131 | - | 519,233 |
| Depreciation | - | (28,653) | (9,844) | (10,795) | (7,551) | (56,843) |
| Movement to 30 June 2011 | 410,767 | (17,292) | 53,498 | 56,114 | (531) | 502,556 |
| **Balances as at 30 June 2011** | | | | | | |
| At fair value | 1,909,347 | 510,834 | 278,596 | 276,928 | - | 2,975,705 |
| At cost | | | | | 62,083 | 62,083 |
| Work in progress at cost | - | 7,491 | 1,430 | 30,213 | 1,151 | 40,285 |
| Accumulated depreciation | - | - | - | - | (42,653) | (42,653) |
| **Balances as at 30 June 2011** | 1,909,347 | 518,325 | 280,026 | 307,141 | 20,581 | 3,035,420 |

# Notes and accounting policies (continued)

For the year ended 30 June 2011

| | GROUP AND PARENT | | | | | |
|---|---|---|---|---|---|---|
| Year ended 30 June 2010 | Land<br>$000 | Buildings and services<br>$000 | Infrastructure<br>$000 | Runway, taxiways and aprons<br>$000 | Vehicles, plant and equipment<br>$000 | Total<br>$000 |
| **Balances as at 1 July 2009** | | | | | | |
| At fair value | 1,499,232 | 598,073 | 247,862 | 265,122 | - | 2,610,289 |
| At cost | - | - | - | - | 57,400 | 57,400 |
| Work in progress at cost | - | 19,115 | 3,696 | 24,007 | 2,029 | 48,847 |
| Accumulated depreciation | - | (71,927) | (24,010) | (31,341) | (41,649) | (168,927) |
| Balances as at 1 July 2009 | 1,499,232 | 545,261 | 227,548 | 257,788 | 17,780 | 2,547,609 |
| Additions | 2,416 | 20,979 | 8,318 | 4,123 | 10,116 | 45,952 |
| Transfers to investment property | (3,069) | (1,718) | - | - | - | (4,787) |
| Disposals | - | - | (174) | (5) | 5 | (174) |
| Depreciation | - | (28,905) | (9,164) | (10,879) | (6,788) | (55,736) |
| Movement to 30 June 2010 | (653) | (9,644) | (1,020) | (6,761) | 3,333 | (14,745) |
| **Balances as at 30 June 2010** | | | | | | |
| At fair value | 1,498,579 | 624,251 | 257,529 | 266,010 | - | 2,646,369 |
| At cost | - | - | - | - | 68,085 | 68,085 |
| Work in progress at cost | - | 12,989 | 2,131 | 27,161 | 1,421 | 43,702 |
| Accumulated depreciation | - | (101,623) | (33,132) | (42,144) | (48,393) | (225,292) |
| **Balances as at 30 June 2010** | 1,498,579 | 535,617 | 226,528 | 251,027 | 21,113 | 2,532,864 |

Additions for the year ended 30 June 2011 include capitalised interest of $1.197 million (2010: $2.102 million).

The net revaluation movement in property, plant and equipment as at 30 June 2011 was an increase in asset values of $519.233 million. This increase in asset values is represented by:

| | 2011<br>$000 |
|---|---|
| Net revaluation movement in property, plant and equipment revaluation reserve | 582,698 |
| Net revaluation movement in income statement | (63,465) |
| **Total net revaluation movement** | 519,233 |

### (b) Revaluation of land, buildings and services, infrastructure, runway, taxiways and aprons

Land and commercial properties were independently valued by Colliers International Limited and Seagar & Partners, registered valuers, as at 30 June 2011 to fair value. Reclaimed land, seawalls, specialised buildings, infrastructure, runways, taxiways and aprons, 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 2011 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 used to determine fair value. The valuation methodologies used in the revaluation as at 30 June 2011 were consistent with the valuation methodologies used in the last valuation as at June 2006.

The key causes of the valuation changes from the last valuation undertaken as at 30 June 2006 are the increased revenue in retail and car parking, increasing the discounted cash flow valuation of these assets; also, a higher market value alternative use valuation of runway land, increasing the market value existing use valuation when holding costs are added. The previous valuation approach used a direct market comparison of similar land sizes to determine an alternative use valuation for runway land. The approach in 2011 used site-specific alternative use values to determine the alternative use valuation. There were also some changes to asset lives, reflecting the independent valuers' assessment of the remaining life of individual assets as well as an increase in industry-specific inflation for some asset groups, reflecting recent demand pressure on infrastructure development.

# Notes and accounting policies (continued)

For the year ended 30 June 2011

To arrive at fair value for property, plant and equipment as at 30 June 2011, the valuers used 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 | Market value alternative use valuation plus development and holding costs to achieve land suitable for airport use | Colliers International 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 | Colliers International Limited and Seagar & Partners (Auckland) Limited |
| Land associated with car park facilities | Discounted cash flow cross-referenced to a market capitalisation of net revenues as indicated by market activity from comparable transactions | Colliers International Limited |
| Land associated with retail facilities within terminal buildings | Discounted cash flow cross-referenced to a market capitalisation of net revenues as indicated by market activity from comparable transactions | Colliers International Limited |
| Lessor's interest in land | Discounted cash flow | Colliers International Limited |
| Land associated with commercial property | Direct capitalisation of rental income and discounted cash flow | Seagar & Partners (Auckland) Limited |
| Other land | Direct sales comparison | Colliers International Limited |
| **Buildings and services** | | |
| Specialised buildings and services including terminals | Optimised depreciated replacement cost | Opus International Consultants Limited |
| Car park buildings and other improvements | Optimised depreciated replacement cost | Opus International Consultants Limited |
| **Infrastructure** | | |
| Infrastructure assets associated with car park buildings and other improvements | Optimised depreciated replacement cost | Opus International Consultants Limited |
| Other infrastructure assets | Optimised depreciated replacement cost | Opus International Consultants Limited |
| **Runway, taxiways and aprons** | | |
| Runway, taxiways and aprons | Optimised depreciated replacement cost | Opus International Consultants Limited |

The principal assumptions used in establishing the valuations as at 30 June 2011 were as follows:

| Airfield land including land for runway, taxiways and aprons | |
|---|---|
| Adopted rate per hectare prior to holding costs | $1,020,000 per hectare |
| Holding costs | 8.60% |
| Holding period | 5 years |
| Direct costs | $4,500,000 |
| Site levelling costs | $35,000 per hectare |
| Discount | 10.00% |

| Land associated with car park facilities | International terminal car parks | Domestic terminal car parks | Park and ride car parks | Staff car parks |
|---|---|---|---|---|
| Discount rate | 12.50% | 13.50% | 10.50% | 9.50% |
| Terminal yield | 10.00% | 12.50% | 9.50% | 8.50% |
| Growth (compound average) | 3.00% | 3.34% | 3.22% | 1.71% |
| Initial capitalisation rate | 9.50% | 10.50% | 8.75% | 8.50% |

| Land associated with retail facilities within terminal buildings | International terminal retail | Domestic terminal retail |
|---|---|---|
| Discount rate | 15.00% | 12.50% |
| Terminal yield | 10.25% | 10.00% |
| Growth (compound average): | | |
| Retail | 3.70% | 2.68% |
| Duty free | 2.88% | - |
| Foreign exchange | 2.57% | 2.57% |
| Initial capitalisation rate | 10.25% | 10.00% |

| Lessor's interest in land and land associated with commercial property | |
|---|---|
| Contract capitalisation rate – average | 7.72% |
| Market capitalisation rate – average | 8.06% |
| Occupancy | 96.31% |
| Weighted average lease term (years) | 6.47 |
| Number of buildings and land parcels | 24 |

**Buildings and services**

All specialised building assets are valued based on information developed from direct survey and condition assessment of each building. Unit costs have been derived from Opus International Consultants Limited's cost library and actual recent construction cost information. Unit costs are based on the most recent information either provided by similar projects or from that available in the industry.

**Reclaimed land, seawalls, infrastructure assets and runways, taxiways and aprons**

Replacement costs are calculated by applying unit cost rates to the identified quantity of assets, with allowance for other costs such as site establishment, professional fees and financial charges.

The unit costs were derived using construction cost information from a variety of sources. These included the following:

- recent local competitively tendered construction works;
- published cost information;
- cost rates derived from recent reconstruction of runway, taxiway and apron assets;
- Opus' database of costing information and experience of typical industry rates; and
- indexed historical cost information.

The financial charge component of optimised depreciated replacement cost values is represented by the assumed debt servicing cost and has been calculated using the following assumptions:

- interest rate for debt is 7.00 percent;
- debt/(debt plus equity) of 36.60 percent.

# Notes and accounting policies (continued)

For the year ended 30 June 2011

The fair value of property, plant and equipment valued by each independent registered valuer is outlined below:

| | GROUP AND PARENT | | | | | |
|---|---|---|---|---|---|---|
| | Land | Buildings and services | Infrastructure | Runway, taxiways and aprons | Vehicles, plant and equipment | Total |
| | $000 | $000 | $000 | $000 | $000 | $000 |
| Colliers International Limited | 1,675,013 | - | - | - | - | 1,675,013 |
| Seagar & Partners Limited | 80,531 | - | - | - | - | 80,531 |
| Opus International Consultants Limited | 153,803 | 508,816 | 273,466 | 275,529 | - | 1,211,614 |
| Property, plant and equipment carried at cost | - | 9,509 | 6,560 | 31,612 | 20,581 | 68,262 |
| **Balances as at 1 July 2011** | 1,909,347 | 518,325 | 280,026 | 307,141 | 20,581 | 3,035,420 |

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

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | $000 | $000 | $000 | $000 |
| **Land** | | | | |
| Cost | 135,231 | 131,121 | 135,231 | 131,121 |
| Accumulated depreciation | - | - | - | - |
| Net carrying amount | 135,231 | 131,121 | 135,231 | 131,121 |
| **Buildings and services** | | | | |
| Cost | 721,820 | 713,682 | 721,820 | 713,682 |
| Accumulated depreciation | (356,682) | (332,301) | (356,682) | (332,301) |
| Net carrying amount | 365,138 | 381,381 | 365,138 | 381,381 |
| **Infrastructure** | | | | |
| Cost | 223,471 | 218,412 | 223,471 | 218,412 |
| Accumulated depreciation | (74,146) | (66,961) | (74,146) | (66,961) |
| Net carrying amount | 149,325 | 151,451 | 149,325 | 151,451 |
| **Runway, taxiways and aprons** | | | | |
| Cost | 297,184 | 291,343 | 297,184 | 291,343 |
| Accumulated depreciation and impairment | (136,013) | (126,067) | (136,013) | (126,067) |
| Net carrying amount | 161,171 | 165,276 | 161,171 | 165,276 |

## 12. Investment properties

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | $000 | $000 | $000 | $000 |
| Balance at the beginning of the year | 490,131 | 467,537 | 490,131 | 467,537 |
| Additions | 40,042 | 8,338 | 40,042 | 8,338 |
| Transfers from/(to) property, plant and equipment (note 11) | (5,581) | 4,787 | (5,581) | 4,787 |
| Investment properties net revaluations | 21,640 | 9,469 | 21,640 | 9,469 |
| **Balance at end of the year** | 546,232 | 490,131 | 546,232 | 490,131 |

Auckland Airport's accounting policy is for investment property to be measured at fair value, which reflects market conditions at the statement of financial position date. To determine fair value, Auckland Airport obtains investment property valuations at least annually by independent registered valuers. The valuations as at 30 June 2011 and 30 June 2010 were performed by Seagar & Partners (Auckland) Limited, Colliers International Limited, CB Richard Ellis Limited and Jones Lang LaSalle Limited. All are registered valuers and industry specialists in valuing these types of investment properties.

The impact of the valuation as at 30 June 2011 and 30 June 2010 has been included in the financial statements by increasing the carrying value of investment properties in the income statement and the statement of financial position.

The basis of valuation is market value, based on each property's highest and best use. The valuation methodologies used were a direct sales comparison or a direct capitalisation of rental income using market comparisons of capitalisation rates, supported by a discounted cash flow approach. The valuation methodologies are consistent with the prior year. The principal assumptions used in establishing the valuations were as follows:

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Contract capitalisation rate – average | 8.16% | 8.42% | 8.16% | 8.42% |
| Market capitalisation rate – average | 8.38% | 8.70% | 8.38% | 8.70% |
| Occupancy | 99.60% | 96.47% | 99.60% | 96.47% |
| Weighted average lease term (years) | 4.98 | 4.64 | 4.98 | 4.64 |
| Number of buildings and land parcels | 123 | 107 | 123 | 107 |

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | $000 | $000 | $000 | $000 |
| Rental income for investment properties | 24,903 | 22,854 | 26,646 | 22,854 |
| Recoverable cost income | 2,415 | 2,118 | 2,455 | 2,118 |
| Direct operating expenses for investment properties that derived rental income | (833) | (976) | (938) | (976) |
| Direct operating expenses for investment properties that did not derive rental income | (242) | (84) | (242) | (84) |

# Notes and accounting policies (continued)

For the year ended 30 June 2011

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

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | $000 | $000 | $000 | $000 |
| Seagar & Partners (Auckland) Limited | 148,923 | 143,979 | 148,923 | 143,979 |
| Colliers International Limited | 161,358 | 153,730 | 161,358 | 153,730 |
| CB Richard Ellis Limited | 214,961 | 191,036 | 214,961 | 191,036 |
| Jones Lang LaSalle | 18,025 | - | 18,025 | - |
| Investment property carried at cost | 2,965 | 1,386 | 2,965 | 1,386 |
| Total fair value of investment properties | 546,232 | 490,131 | 546,232 | 490,131 |

## 13. Cash

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | $000 | $000 | $000 | $000 |
| Short-term deposits | 46,150 | 35,500 | 46,150 | 35,500 |
| Cash and bank balances | (4) | 552 | (4) | 552 |
| | 46,146 | 36,052 | 46,146 | 36,052 |

Cash and bank balances earn interest at daily bank deposit rates. During the year, surplus funds were deposited on the overnight money market and term deposit at a rate of between 2.50 percent and 4.30 percent (2010: at a rate of 2.50 percent to 4.15 percent).

## 14. Accounts receivable

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | $000 | $000 | $000 | $000 |
| Trade receivables | 6,341 | 2,593 | 6,341 | 2,593 |
| Less: Provision for doubtful debts | (635) | (575) | (635) | (575) |
| Net trade receivables | 5,706 | 2,018 | 5,706 | 2,018 |
| Revenue accruals and other receivables | 14,770 | 14,094 | 14,770 | 14,292 |
| | 20,476 | 16,112 | 20,476 | 16,310 |

### (a) Allowance for impairment

Trade receivables have general payment terms of the 1st or the 20th of the month following invoice. A provision for doubtful debts is recognised when there is objective evidence that an individual trade receivable is impaired.

Doubtful debts of $0.635 million (2010: $0.575 million) have been recognised by the group at year end. These amounts have been included in the other expense item. No individual amount within the provision for doubtful debts is material.

Movements in the provision for impairment loss were as follows:

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | $000 | $000 | $000 | $000 |
| At 1 July | 575 | 418 | 575 | 418 |
| Change in provision for the year | 82 | 277 | 82 | 277 |
| Amounts written off | (22) | (120) | (22) | (120) |
| At 30 June | 635 | 575 | 635 | 575 |

### (b) Fair value and credit risk

Due to the short-term nature of these receivables, their carrying value is assumed to approximate their fair value.

The maximum exposure to credit risk is the fair value of receivables. Collateral in the form of performance bonds is held as security for some customers whose credit rating or history indicates that this would be prudently required. The group considers that there has been no significant deterioration in the credit quality of receivables which are neither past due nor impaired.

# Notes and accounting policies (continued)

For the year ended 30 June 2011

## 15. Issued and paid-up capital

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | $000 | $000 | $000 | $000 |
| Opening issued and paid-up capital at 1 July | 313,245 | 174,738 | 313,794 | 175,308 |
| Options exercised during the year | - | 1,060 | - | 1,060 |
| Shares allocated to employees by employee share scheme | 18 | 21 | - | - |
| Shares issued under the Accelerated Renounceable Entitlement Offer | - | 122,620 | - | 122,620 |
| Shares issued under the dividend reinvestment plan | 25,123 | 14,806 | 25,123 | 14,806 |
| **Closing issued and paid-up capital at 30 June** | 338,386 | 313,245 | 338,917 | 313,794 |

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | Shares | Shares | Shares | Shares |
| Opening number of shares issued at 1 July | 1,309,974,587 | 1,224,812,995 | 1,310,392,831 | 1,225,243,239 |
| Options exercised during the year | - | 640,000 | - | 640,000 |
| Shares allocated to employees by employee share scheme | 12,000 | 12,000 | - | - |
| Shares issued under the Accelerated Renounceable Entitlement Offer | - | 76,610,417 | - | 76,610,417 |
| Shares issued under the dividend reinvestment plan | 12,171,658 | 7,899,175 | 12,171,658 | 7,899,175 |
| **Closing number of shares issued at 30 June** | 1,322,158,245 | 1,309,974,587 | 1,322,564,489 | 1,310,392,831 |

All issued shares are fully paid and have no par value. The company does not limit the amount of authorised capital.

Each ordinary share confers on the holder one vote at any shareholder meeting of the company and carries the right to dividends.

Options have been exercised pursuant to the Executive Share Option Plan. Details of these options are disclosed in note 26.

Shares forfeited by employees participating in the Employee Share Purchase Plan become shares held by the Employee Share Purchase Plan. Shares allocated to employees participating in the Employee Share Purchase Plan are no longer shares held by the Employee Share Purchase Plan. As a member of the group the shares held by the Employee Share Purchase Plan are eliminated from the group's issued and paid-up capital. At 30 June 2011 the number of shares held by the Employee Share Purchase Plan was 406,244 (2010: 418,244).

In January 2010 Auckland Airport made a pro-rata entitlement offer to existing shareholders under an Accelerated Renounceable Entitlement Offer to partially fund, by equity, the investment in North Queensland Airports. Under the offer, eligible shareholders were entitled to acquire one new share for every 16 existing shares held at NZ$1.65 per new share. A total of 76,610,417 shares was issued as part of the equity offer, resulting in an increase of equity of $122.620 million, net of issue costs.

In February 2010 Auckland Airport introduced a dividend reinvestment plan. Under the plan, shareholders can elect to receive the value of their dividends in additional shares. In the year ended 30 June 2011, 12,171,658 shares with a total value of $25.123 million was issued in lieu of a cash dividend (30 June 2010: 7,899,175 shares with a total value of $14.806 million).

## 16. Retained earnings and reserves

(a) Movements in retained earnings were:

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | $000 | $000 | $000 | $000 |
| Balance at 1 July | 150,471 | 220,251 | 155,406 | 220,075 |
| Profit after taxation | 100,761 | 29,694 | 105,715 | 34,817 |
| Ordinary dividends paid (refer note 9) | (111,008) | (103,355) | (111,022) | (103,367) |
| Reclassification from revaluation reserve | 18,183 | 3,881 | 18,183 | 3,881 |
| **Balance at 30 June** | 158,407 | 150,471 | 168,282 | 155,406 |

(b) Reserves

(i) Cancelled share reserve

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | $000 | $000 | $000 | $000 |
| **Opening and closing cancelled share reserve** | (161,304) | (161,304) | (161,304) | (161,304) |

The cancelled share reserve records the premium above paid-up share capital incurred on the return of capital to shareholders and on-market buy-backs of ordinary shares.

(ii) Property, plant and equipment revaluation reserve

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | $000 | $000 | $000 | $000 |
| Balance at the beginning of the year | 1,632,764 | 1,628,783 | 1,632,764 | 1,628,783 |
| Reclassification to retained earnings | (18,183) | (3,881) | (18,183) | (3,881) |
| Revaluation movements | 582,698 | - | 582,698 | - |
| Movement in deferred tax | (47,548) | 7,862 | (47,548) | 7,862 |
| **Balance at the end of the year** | 2,149,731 | 1,632,764 | 2,149,731 | 1,632,764 |

(iii) Share-based payments reserve

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | $000 | $000 | $000 | $000 |
| Balance at the beginning of the year | 906 | 895 | 906 | 895 |
| Employee share purchase plan | 7 | 11 | 7 | 11 |
| **Balance at the end of the year** | 913 | 906 | 913 | 906 |

The share-based payments reserve is used to record the value of share-based payments provided to employees, including key management personnel, as part of their remuneration. Refer to note 26 for further details of these plans.

# Notes and accounting policies (continued)

For the year ended 30 June 2011

### (iv) Cash flow hedge reserve

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | $000 | $000 | $000 | $000 |
| Balance at the beginning of the year | (18,899) | (22,216) | (18,899) | (22,216) |
| Fair value change in hedging instrument | (16,198) | (15,323) | (16,198) | (15,323) |
| Transfer to income statement | 13,733 | 20,812 | 13,733 | 20,812 |
| Movement in deferred tax | 690 | (2,172) | 690 | (2,172) |
| **Balance at the end of the year** | (20,674) | (18,899) | (20,674) | (18,899) |

The cash flow hedge reserve records the effective portion of the fair value of interest rate swaps that are designated as cash flow hedges. Amounts transferred to the income statement are included in interest expense and other finance costs.

### (v) Share of reserves of associate

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | $000 | $000 | $000 | $000 |
| Balance at the beginning of the year | (1,202) | - | - | - |
| Share of reserves of associate | (481) | (1,202) | - | - |
| **Balance at the end of the year** | (1,683) | (1,202) | - | - |

The share of reserves of the associate records the group's share of the associate's cash flow hedge reserve. The cash flow hedge reserve of the associate records the effective portion of the fair value of interest rate swaps that are designated as cash flow hedges. Amounts transferred to the income statement of the associate are included in the share of profit of the associate.

### (vi) Foreign currency translation reserve

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | $000 | $000 | $000 | $000 |
| Balance at the beginning of the year | (2,347) | - | - | - |
| Fair value change in hedging instrument | (2,635) | 902 | - | - |
| Foreign currency translation | 8,737 | (3,249) | - | - |
| **Balance at the end of the year** | 3,755 | (2,347) | - | - |

## 17. Accounts payable and accruals

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | $000 | $000 | $000 | $000 |
| Employee entitlements | 4,857 | 4,895 | 4,857 | 4,895 |
| Phantom option plan accrual (refer note 26) | 2,600 | 2,000 | 2,600 | 2,000 |
| GST payable | 1,792 | 2,408 | 1,792 | 2,408 |
| Property, plant and equipment retentions and payables | 18,050 | 12,323 | 18,050 | 12,323 |
| Trade payables | 1,623 | 1,356 | 1,623 | 1,356 |
| Other payables and accruals | 23,853 | 23,001 | 23,612 | 22,833 |
| **Total accounts payable and accruals** | 52,775 | 45,983 | 52,534 | 45,815 |

Due to the short-term nature of these payables, their carrying value is assumed to approximate their fair value.

## 18. Borrowings

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

| | | | GROUP | | PARENT | |
|---|---|---|---|---|---|---|
| | | | 2011 | 2010 | 2011 | 2010 |
| | Maturity | Coupon | $000 | $000 | $000 | $000 |
| **Current** | | | | | | |
| Commercial paper | < 3 months | Floating | 81,803 | 81,780 | 81,803 | 81,780 |
| Bank facility | 10/03/2011 | Floating | - | 125,000 | - | 125,000 |
| Floating rate notes | 29/07/2011 | Floating | 5,000 | - | 5,000 | - |
| Bonds | 29/07/2011 | 6.83% | 70,203 | - | 70,203 | - |
| Bank facility | 31/01/2012 | Floating | 275,000 | - | 275,000 | - |
| **Total short-term borrowings** | | | 432,006 | 206,780 | 432,006 | 206,780 |
| **Non-current** | | | | | | |
| Bank facility | 31/01/2012 | Floating | - | 275,000 | - | 275,000 |
| Bank facility | 10/03/2013 | Floating | 52,000 | 50,000 | 52,000 | 50,000 |
| Floating rate notes | 29/07/2011 | Floating | - | 5,000 | - | 5,000 |
| Bonds | 29/07/2011 | 6.83% | - | 72,047 | - | 72,047 |
| Bonds | 07/11/2012 | 7.19% | 50,000 | 50,000 | 50,000 | 50,000 |
| Bonds | 28/02/2014 | 7.25% | 50,000 | 50,000 | 50,000 | 50,000 |
| Bonds | 27/11/2014 | 7.00% | 127,964 | 127,192 | 127,964 | 127,192 |
| Bonds | 07/11/2015 | 7.25% | 100,000 | 100,000 | 100,000 | 100,000 |
| Bonds | 10/08/2016 | 8.00% | 26,473 | 25,987 | 26,473 | 25,987 |
| Bonds | 15/11/2016 | 8.00% | 129,992 | 129,992 | 129,992 | 129,992 |
| USPP notes | 15/02/2021 | 4.42% | 60,643 | - | 60,643 | - |
| USPP notes | 12/07/2021 | 4.67% | (4,996) | - | (4,996) | - |
| USPP notes | 15/02/2023 | 4.57% | 60,564 | - | 60,564 | - |
| **Total term borrowings** | | | 652,640 | 885,218 | 652,640 | 885,218 |
| **Total** | | | | | | |
| Commercial paper | | | 81,803 | 81,780 | 81,803 | 81,780 |
| Bank facilities | | | 327,000 | 450,000 | 327,000 | 450,000 |
| Floating rate notes | | | 5,000 | 5,000 | 5,000 | 5,000 |
| Bonds | | | 554,632 | 555,218 | 554,632 | 555,218 |
| USPP notes | | | 116,211 | - | 116,211 | - |
| **Total borrowings** | | | 1,084,646 | 1,091,998 | 1,084,646 | 1,091,998 |
| **Summary of maturities** | | | | | | |
| Due less than one year | | | 432,006 | 206,780 | 432,006 | 206,780 |
| Due one to three years | | | 152,000 | 452,047 | 152,000 | 452,047 |
| Due three to five years | | | 227,964 | 177,192 | 227,964 | 177,192 |
| Due greater than five years | | | 272,676 | 255,979 | 272,676 | 255,979 |
| | | | 1,084,646 | 1,091,998 | 1,084,646 | 1,091,998 |

The group utilises a mixture of bank facilities, term bonds, floating rate notes, commercial paper, US private placement (USPP) notes and money market facilities to provide its ongoing debt requirements. The directors are confident that short-term borrowings will be refinanced at maturity.

# Notes and accounting policies (continued)

For the year ended 30 June 2011

*Bank facilities*

During December 2009, the company established a bilateral $150 million standby bank facility provided by Bank of Tokyo-Mitsubishi UFJ to refinance the second tranche of the dual tranche standby facility maturing on 10 March 2010. This facility matures on 10 March 2013. The purpose of the standby facilities is to support the commercial paper programme and to provide liquidity support for general working capital. The facility is undrawn.

In March 2008, the company established a dual tranche standby facility agreement with a syndicate of banks for $200 million. The first tranche was for $100 million and was cancelled on 24 August 2009. The second tranche of $100 million was cancelled in February 2010 in advance of its scheduled expiry date of 10 March 2010.

Also in March 2008, the company established a cash advances facility agreement with a syndicate of banks for $350 million. The facility contained a two-year facility of $125 million, a three-year facility of $125 million and a five-year revolving facility of up to $100 million. The company repaid the two-year $125 million facility in November 2009 and February 2010 in advance of its scheduled expiry date of March 2010. The company repaid the three-year $125 million facility in February 2011. The remaining facility is $100 million, of which $52 million is drawn as at 30 June 2011.

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 advance facility of $175 million. In February 2007, the company extended the expiration of this bank facility to 31 January 2012.

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

The rates on bank facilities during the year have been between 2.94 percent and 4.32 percent (2010: 2.94 percent and 3.93 percent) and at year end the rates were between 2.95 percent and 4.12 percent (2010: 3.01 percent and 3.93 percent).

*Term bonds*

During October and November 2009, the company raised $125 million through a public bond issue. The bonds are unsecured and unsubordinated and pay interest at a fixed rate of 7.00 percent with a maturity of 27 November 2014.

In August 2009, the company raised $25 million through a private placement bond issue. The bonds are unsecured and unsubordinated and pay interest at a fixed rate of 8.00 percent per annum with a maturity of 10 August 2016.

Bonds of $70 million and floating rates notes of $5 million maturing on 29 July 2011 were subsequently refinanced with the July 2011 tranche of the US private placement (USPP) issuance that was undrawn as at 30 June 2011.

Borrowings under the bond programme are supported by a master trust deed.

*US private placement notes*

In December 2010, the group agreed terms on a total of US$150 million in the USPP market to refinance the bank facility maturing in March 2011 and the floating rate notes and fixed bonds maturing in July 2011. The USPP issuance is made up of three tranches of US$50 million each. The tranches are a 4.42 percent coupon ten year note and a 4.57 percent coupon 12 year note which were drawn in February 2011 as well as a 4.67 percent coupon ten year note subsequently drawn in July 2011. Three cross currency interest rate swaps were also entered into at the same time to swap the US$ principal and fixed coupon obligations to NZ$ principal and floating interest rate exposures. Although the July 2011 tranche was undrawn as at 30 June 2011, it is a hedged item and therefore the change in fair value of the hedged item is recorded as borrowings as at the balance sheet date.

*Floating rate notes*

Floating rate notes are based on the 90 day bank bill rate plus a margin of 30 basis points (2010: 30 basis points). During the year ended 30 June 2011 the range of interest rates has been between 2.98 percent and 3.58 percent (2010: 3.01 percent and 3.31 percent) and at year end the rate was 2.98 percent (2010: 3.01 percent).

*Commercial paper*

Commercial paper rates are set through a tender process and during the year ended 30 June 2011 the range of weighted average interest rates for each issue has been between 2.88 percent and 3.53 percent (2010: 3.00 percent and 3.61 percent) and at year end the rates were between 2.88 percent and 2.91 percent (2010: 3.00 percent and 3.41 percent).

*Money market facilities*

Money market funding was not required during the year ended 30 June 2011. The money market rates during the year ended 30 June 2010 were between 3.05 percent and 3.30 percent.

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

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

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | $000 | $000 | $000 | $000 |
| **Profit after taxation** | 100,761 | 29,694 | 105,715 | 34,817 |
| **Non-cash items:** | | | | |
| Depreciation | 56,843 | 55,736 | 56,843 | 55,736 |
| Bad debts and doubtful debts | 82 | 277 | 82 | 277 |
| Deferred taxation expense | (13,828) | 86,472 | (13,840) | 86,472 |
| Share-based payments expense | 7 | 11 | 7 | 11 |
| Equity accounted earnings from associates | (4,755) | (98) | - | (890) |
| Investment property fair value decrease/(increase) | (21,640) | (9,469) | (21,640) | (9,469) |
| Derivative fair value decrease/(increase) | (3,503) | - | (3,503) | - |
| Property plant and equipment fair value decrease/(increase) | 63,465 | - | 63,465 | - |
| Inter-company interest | - | - | (13,902) | (6,187) |
| **Items not classified as operating activities:** | | | | |
| (Gain)/loss on asset disposals | 114 | 172 | 114 | 172 |
| (Gain)/loss on sale of associate | (1,240) | - | (1,240) | - |
| (Increase)/decrease in provisions and property, plant and equipment retentions and payables | (6,392) | (953) | (6,392) | (953) |
| **Movement in working capital:** | | | | |
| (Increase)/decrease in current assets | (4,166) | (921) | (3,967) | (873) |
| (Increase)/decrease in taxation payable | 1,568 | 12,948 | 5,729 | 14,804 |
| Increase/(decrease) in accounts payable | 7,448 | 2,294 | 7,422 | 2,124 |
| Increase/(decrease) in other term liabilities | 177 | 93 | 176 | 93 |
| **Net cash flow from operating activities** | 174,941 | 176,256 | 175,069 | 176,134 |

# Notes and accounting policies (continued)

For the year ended 30 June 2011

## 20. Financial instruments

*Fair value*

The group's financial instruments that are assets comprise cash, accounts receivable, dividends receivable and other non-current assets (classified as loans and receivables), interest basis swaps and derivatives (designated as effective hedging instruments). The total carrying amount of the group's financial instruments that are assets is $81.914 million at 30 June 2011 (2010: $65.124 million).

The group's financial instruments that are liabilities comprise accounts payable and accruals, borrowings, provisions, other liabilities (classified as financial liabilities at amortised cost) and derivatives (designated as effective hedging instruments). The total carrying amount of the group's financial instruments that are liabilities is $1,193.567 million at 30 June 2011 (2010: $1,176.341 million).

The group's derivative financial instruments are interest rate swaps, cross-currency interest rate swaps, interest basis swaps and forward foreign currency contracts. All of the group's derivative financial instruments, with the exception of the interest basis swaps, are effective hedging instruments for financial reporting purposes. The interest basis swaps are transacted as hedges but do not qualify for hedge accounting. The group's financial instruments arise directly from the group's operations as part of raising finance for the group's operations or providing a new investment hedge for the group.

The carrying value approximates the fair value of cash, accounts receivable, dividend receivable, other non-current assets, derivative financial instruments, accounts payable and accruals, provisions and other term liabilities. The carrying amount of the group's current and non-current borrowings issued at floating rates approximates their fair value. The fair value of the bonds is based on the quoted market prices for these instruments at balance date.

| | GROUP AND PARENT | | | |
|---|---|---|---|---|
| | 2011 | | 2010 | |
| | Carrying amount $000 | Fair value $000 | Carrying amount $000 | Fair value $000 |
| Bonds | 554,632 | 590,198 | 555,218 | 580,948 |

The fair value of the USPP notes has been determined at balance date on a discounted cash flow basis using current market interest rates.

| | GROUP AND PARENT | | | |
|---|---|---|---|---|
| | 2011 | | 2010 | |
| | Carrying amount $000 | Fair value $000 | Carrying amount $000 | Fair value $000 |
| USPP notes | 116,211 | 135,327 | - | - |

The group uses various methods in estimating the fair value of a financial instrument. The methods comprise:

Level 1 – the fair value is calculated using quoted prices in active markets;

Level 2 – the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and

Level 3 – the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

The group's derivative financial instruments (see note 21) are all level 2 financial instruments and the fair value of these instruments is determined by using valuation techniques. The fair value of interest rate swaps, cross-currency interest rate swaps, interest basis swaps and forward foreign currency contracts are calculated as the present value of the estimated future cash flows based on observable interest yield curves or foreign exchange market prices.

## 21. Financial risk management objectives and policies

The group has a treasury policy which limits exposure to market risk for changes in interest rates and foreign currency, liquidity risk and counterparty credit risk. The group has no other material direct price risk exposure.

### (a) Credit risk

The maximum exposure to credit risk at 30 June is equal to the carrying value for cash, accounts receivable, dividend receivable, other non-current assets and derivative financial instruments.

Credit risk is managed by restricting the amount of cash and marketable securities 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.

The group's credit risk is also attributable to accounts receivable which principally comprise amounts due from airlines, tenants and licensees. The group has a policy that manages exposure to credit risk by way of requiring a performance bond for some customers whose credit rating or history indicates that this would be prudently required. The value of performance bonds for the group is $0.707 million (2010: $0.531 million). There are no significant concentrations of credit risk.

### (b) Liquidity risk

The group's objective is to maintain a balance between continuity of funding, USPP and flexibility through the use of borrowings on money market, bank loans, floating rate notes, commercial paper and bonds.

To manage the liquidity risk, the group's policy is to maintain sufficient available funding by way of committed, but undrawn, debt facilities. As at 30 June 2011, this facility headroom was $198.000 million (2010: $200.000 million). The group's policy also requires the spreading of debt maturities.

*A. Non-derivative financial liabilities*

The following liquidity risk disclosures reflect all undiscounted repayments and interest resulting from recognised financial liabilities and financial assets as at 30 June 2011. The timing of cash flows for liabilities is based on the contractual terms of the underlying contract.

The risk implied from the values shown in the table below reflects a balanced view of cash inflows and outflows of non-derivative financial instruments. Trade payables and other financial liabilities mainly originate from the financing of assets used in the group's ongoing operations such as property, plant and equipment, investment properties and investments in working capital.

Liquid non-derivative assets comprising cash and receivables are considered in the group's overall liquidity risk. The group ensures that sufficient liquid assets or committed funding facilities are available to meet all the required short-term cash payments and expects borrowings to roll over.

# Notes and accounting policies (continued)

For the year ended 30 June 2011

| | GROUP | | | | |
|---|---|---|---|---|---|
| | < 1 year | 1 to 3 years | 3 to 5 years | > 5 years | Total |
| | $000 | $000 | $000 | $000 | $000 |
| **Year ended 30 June 2011** | | | | | |
| **Financial assets** | | | | | |
| Cash | 46,146 | - | - | - | 46,146 |
| Accounts receivable | 19,628 | - | - | - | 19,628 |
| Dividend receivable | 3,820 | - | - | - | 3,820 |
| Other non-current assets | 775 | - | - | - | 775 |
| **Total financial assets** | 70,369 | - | - | - | 70,369 |
| **Financial liabilities** | | | | | |
| Accounts payable and accruals | 52,574 | - | - | - | 52,574 |
| Provisions | 1,232 | - | - | - | 1,232 |
| Commercial paper | 82,000 | - | - | - | 82,000 |
| Bank facilities | 275,000 | 52,000 | - | - | 327,000 |
| Floating rate notes | 5,000 | - | - | - | 5,000 |
| Bonds | 70,000 | 100,000 | 225,000 | 154,992 | 549,992 |
| USPP notes | - | - | - | 195,184 | 195,184 |
| Interest payable on borrowing | 54,182 | 85,022 | 56,002 | 52,523 | 247,729 |
| **Total financial liabilities** | 539,988 | 237,022 | 281,002 | 402,699 | 1,460,711 |

| | GROUP | | | | |
|---|---|---|---|---|---|
| | < 1 year | 1 to 3 years | 3 to 5 years | > 5 years | Total |
| | $000 | $000 | $000 | $000 | $000 |
| **Year ended 30 June 2010** | | | | | |
| **Financial assets** | | | | | |
| Cash | 36,052 | - | - | - | 36,052 |
| Accounts receivable | 16,112 | - | - | - | 16,112 |
| Dividend receivable | 3,687 | - | - | - | 3,687 |
| Other non-current assets | 775 | - | - | - | 775 |
| **Total financial assets** | 56,626 | - | - | - | 56,626 |
| **Financial liabilities** | | | | | |
| Accounts payable and accruals | 45,983 | - | - | - | 45,983 |
| Provisions | 567 | - | - | - | 567 |
| Commercial paper | 82,000 | - | - | - | 82,000 |
| Bank facilities | 125,000 | 325,000 | - | - | 450,000 |
| Floating rate notes | - | 5,000 | - | - | 5,000 |
| Bonds | - | 120,000 | 175,000 | 254,992 | 549,992 |
| Interest payable | 57,036 | 82,082 | 54,058 | 19,138 | 212,314 |
| **Total financial liabilities** | 310,586 | 532,082 | 229,058 | 274,130 | 1,345,856 |

| | PARENT | | | | |
|---|---|---|---|---|---|
| | < 1 year | 1 to 3 years | 3 to 5 years | > 5 years | Total |
| | $000 | $000 | $000 | $000 | $000 |
| **As at 30 June 2011** | | | | | |
| **Liquid financial assets** | | | | | |
| Cash | 46,146 | - | - | - | 46,146 |
| Accounts receivable | 19,628 | - | - | - | 19,628 |
| Inter-company loans | 173,837 | - | - | - | 173,837 |
| Other non-current assets | 775 | - | - | - | 775 |
| **Total liquid financial assets** | 240,386 | - | - | - | 240,386 |
| **Financial liabilities** | | | | | |
| Accounts payable and accruals | 52,335 | - | - | - | 52,335 |
| Provisions | 1,232 | - | - | - | 1,232 |
| Commercial paper | 82,000 | - | - | - | 82,000 |
| Bank facilities | 275,000 | 52,000 | - | - | 327,000 |
| Floating rate notes | 5,000 | - | - | - | 5,000 |
| Bonds | 70,000 | 100,000 | 225,000 | 154,992 | 549,992 |
| USPP notes | - | - | | 195,184 | 195,184 |
| Interest payable | 54,182 | 85,022 | 56,002 | 52,523 | 247,729 |
| **Total financial liabilities** | 539,749 | 237,022 | 281,002 | 402,699 | 1,460,472 |

| | PARENT | | | | |
|---|---|---|---|---|---|
| | < 1 year | 1 to 3 years | 3 to 5 years | > 5 years | Total |
| | $000 | $000 | $000 | $000 | $000 |
| **As at 30 June 2010** | | | | | |
| **Liquid financial assets** | | | | | |
| Cash | 36,052 | - | - | - | 36,052 |
| Accounts receivable | 16,310 | - | - | - | 16,310 |
| Inter-company loans | 136,984 | - | - | - | 136,984 |
| Other non-current assets | 775 | - | - | - | 775 |
| **Total liquid financial assets** | 190,121 | - | - | - | 190,121 |
| **Financial liabilities** | | | | | |
| Accounts payable and accruals | 45,815 | - | - | - | 45,815 |
| Provisions | 567 | - | - | - | 567 |
| Commercial paper | 82,000 | - | - | - | 82,000 |
| Bank facilities | 125,000 | 325,000 | - | - | 450,000 |
| Floating rate notes | - | 5,000 | - | - | 5,000 |
| Bonds | - | 120,000 | 175,000 | 254,992 | 549,992 |
| Interest payable | 57,036 | 82,082 | 54,058 | 19,138 | 212,314 |
| **Total financial liabilities** | 310,418 | 532,082 | 229,058 | 274,130 | 1,345,688 |

# Notes and accounting policies (continued)

For the year ended 30 June 2011

*B. Derivative financial liabilities*

The following tables summarise the maturity profile of the company's derivatives based on contractual undiscounted payments.

| | GROUP AND PARENT | | | | |
|---|---|---|---|---|---|
| | < 1 year | 1 to 3 years | 3 to 5 years | > 5 years | Total |
| **As at 30 June 2011** | $000 | $000 | $000 | $000 | $000 |
| Current derivative assets – foreign currency contract | 148 | - | - | - | 148 |
| Current derivative assets – fair value hedge | 1,868 | - | - | - | 1,868 |
| Non-current derivative assets – fair value hedge | 2,198 | 2,445 | 382 | 491 | 5,516 |
| Non-current derivative assets – interest basis swaps | 363 | 854 | 876 | 2,436 | 4,529 |
| Non-current derivative liabilities – cross-currency hedge | 3,190 | (8,185) | (13,046) | (57,534) | (75,575) |
| Current derivative liabilities – cash flow hedge | (2,818) | - | - | - | (2,818) |
| Non-current derivative liabilities – cash flow hedge | (7,798) | (9,979) | (5,028) | (2,097) | (24,902) |
| **Total** | (2,849) | (14,865) | (16,816) | (56,704) | (91,234) |

| | GROUP AND PARENT | | | | |
|---|---|---|---|---|---|
| | < 1 year | 1 to 3 years | 3 to 5 years | > 5 years | Total |
| **As at 30 June 2010** | $000 | $000 | $000 | $000 | $000 |
| Current derivative assets – fair value hedge | 902 | - | - | - | 902 |
| Non-current derivative assets – fair value hedge | 3,831 | 3,276 | 467 | 455 | 8,029 |
| Current derivative liabilities – cash flow hedge | (2,786) | - | - | - | (2,786) |
| Non-current derivative liabilities – cash flow hedge | (9,225) | (10,528) | (5,045) | (3,637) | (28,435) |
| **Total** | (7,278) | (7,252) | (4,578) | (3,182) | (22,290) |

### (c) Interest rate risk

The group's exposure to market risk for changes in interest rates relates primarily to the group's short and long-term borrowings. Borrowings issued at variable interest rates expose the group to changes in interest rates. Borrowings issued at fixed rates expose the group to changes in the fair value of the borrowings.

The group's policy is to manage its interest rate exposure using a mix of fixed and variable rate debts that are accounted for as cash flow hedges or fair value hedges. The group's policy is to keep its exposure to borrowings at fixed rates of interest between parameters set out in the group's treasury policy.

At year end, 64 percent (2010: 74 percent) of the borrowings (including the effects of the derivative financial instruments and cash and funds on deposit) were subject to fixed interest rates, which are defined as borrowings with an interest reset date greater than one year. The hedged forecast future interest payments are expected to occur at various dates between one month and 12 years from 30 June 2011.

At balance date, the company had the following mix of financial assets and liabilities exposed to New Zealand variable interest rate risk after considering hedging instruments:

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2011<br>$000 | 2010<br>$000 | 2011<br>$000 | 2010<br>$000 |
| **Financial assets** | | | | |
| Cash | 46,146 | 36,052 | 46,146 | 36,052 |
| | 46,146 | 36,052 | 46,146 | 36,052 |
| **Financial liabilities** | | | | |
| Floating rate notes | 5,000 | 5,000 | 5,000 | 5,000 |
| Bonds in fair value hedge | 145,000 | 145,000 | 145,000 | 145,000 |
| Bank facilities | 137,000 | 150,000 | 137,000 | 150,000 |
| Commercial paper | 12,000 | 12,000 | 12,000 | 12,000 |
| USPP notes | 116,211 | - | 116,211 | - |
| | 415,211 | 312,000 | 415,211 | 312,000 |
| **Net exposure** | 369,065 | 275,948 | 369,065 | 275,948 |

The following table demonstrates the sensitivity to a change in floating interest rates of plus and minus one percent, with all other variables held constant, of the company's profit before tax and equity.

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2011<br>$000 | 2010<br>$000 | 2011<br>$000 | 2010<br>$000 |
| **Increase in interest rates of one percent** | | | | |
| Effect on profit before tax | (3,824) | (2,765) | (3,824) | (2,765) |
| Effect on retained earnings | (2,677) | (1,936) | (2,677) | (1,936) |
| Effect on cash flow hedge reserve | 9,013 | 10,968 | 9,013 | 10,968 |
| **Decrease in interest rates of one percent** | | | | |
| Effect on profit before tax | 3,824 | 2,765 | 3,824 | 2,765 |
| Effect on retained earnings | 2,677 | 1,936 | 2,677 | 1,936 |
| Effect on cash flow hedge reserve | (9,507) | (11,608) | (9,507) | (11,608) |

Significant assumptions used in the interest rate sensitivity analysis include the following:

- Effect on profit before tax and effect on retained earnings is based on net floating rate debt and funds on deposit as at 30 June 2011 of $382.400 million (2010: $276.500 million). An interest rate of plus and minus one percent has therefore been applied to this floating rate debt to demonstrate the sensitivity of interest rate risk.
- The tax rate used to calculate the effect on retained earnings as at 30 June 2011 is 30 percent (2010: 30 percent).
- Effect on cash flow hedge reserve is the movement in valuation of derivatives in a cash flow hedge relationship as at 30 June due to increase and decrease in interest rates. All derivatives which are 100 percent effective as at 30 June 2011 are assumed to remain 100 percent effective until maturity; therefore, any movement in these derivative valuations is taken to the cash flow hedge reserve.

# Notes and accounting policies (continued)

For the year ended 30 June 2011

At balance date the fair value of interest rate derivatives are as follows:

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | $000 | $000 | $000 | $000 |
| **Current assets** | | | | |
| Interest rate swaps – fair value hedges | 1,864 | - | 1,864 | - |
| **Total** | 1,864 | - | 1,864 | - |
| **Non-current assets** | | | | |
| Interest rate swaps – fair value hedges | 5,184 | 7,596 | 5,184 | 7,596 |
| Interest basis swaps | 3,503 | - | 3,503 | - |
| **Total** | 8,687 | 7,596 | 8,687 | 7,596 |
| **Current liabilities** | | | | |
| Interest rate swaps – cash flow hedges | 2,784 | 2,751 | 2,784 | 2,751 |
| **Total** | 2,784 | 2,751 | 2,784 | 2,751 |
| **Non-current liabilities** | | | | |
| Interest rate swaps – cash flow hedges | 23,024 | 25,802 | 23,024 | 25,802 |
| Cross-currency interest rate swaps – fair value hedges | 18,122 | - | 18,122 | - |
| **Total** | 41,146 | 25,802 | 41,146 | 25,802 |

### Interest rate swaps

*Cash flow hedges*

At 30 June 2011, the company held interest rate swaps where it pays a fixed rate of interest and receives a variable rate on the notional amount. The notional amount of the interest rate swaps at 30 June 2011 is $260.000 million (2010: $370.000 million). These interest rate swaps are designated as cash flow hedges of the future variable interest rate cash flows on bank facilities and commercial paper. The interest payment frequency on these borrowings is quarterly.

During the year, the company assessed the cash flow hedges to be highly effective. No ineffectiveness has been required to be recognised in the income statement.

*Fair value hedges*

At 30 June 2011, the company held interest rate swaps and cross-currency interest rate swaps where it receives a fixed rate of interest and pays a variable rate on the notional amount. The notional amount of the interest rate swaps and cross-currency interest rate swaps at 30 June 2011 is $340.184 million (includes $195.184 million of cross-currency interest rate swaps) (2010: $145.000 million). These interest rate swaps and cross-currency interest rate swaps are designated as fair value hedges and transform a series of known fixed debt interest cash flows to future variable debt interest cash flows so as to mitigate exposure to fair value changes in fixed interest bonds.

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

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | $000 | $000 | $000 | $000 |
| Gains/(losses) on the fixed interest bonds | 568 | (1,337) | 568 | (1,337) |
| Gains/(losses) on the USPP notes | 923 | - | 923 | - |
| Gains/(losses) on the derivatives | (1,491) | 1,337 | (1,491) | 1,337 |

As part of the issuance of the USPP notes and cross-currency interest rate swaps, additional interest rate basis swaps were taken out by the company to hedge the basis risk on the cross-currency interest rate swaps. The basis swap is not hedge accounted.

Gains or losses on the basis swaps recognised in the income statement during the period were:

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | $000 | $000 | $000 | $000 |
| Gains/(losses) on the derivatives | 3,503 | - | 3,503 | - |

### (d) Foreign currency risk

The group is exposed to foreign currency risk with respect to Australian and US dollars. Exposure to the Australian dollar arises from the translation risk related to investment in foreign operations. Exposure to the US dollar arises from USPP borrowings denominated in that currency.

The group has a forward foreign exchange contract of AU$40.000 million that is used as a partial hedge of the net investment in the North Queensland Airports operation.

The group's exposure to the US dollar has been fully hedged by way of cross-currency interest rate swaps, hedging US dollar exposure on both principal and interest. The cross-currency interest rate swaps correspond in amount and maturity to the US dollar borrowings with no residual US dollar foreign currency risk exposure.

# Notes and accounting policies (continued)

For the year ended 30 June 2011

The following sensitivity is based on the foreign currency risk exposures in existence at the reporting date. At 30 June 2011, had the New Zealand dollar moved, as illustrated in the table below, with all other variables held constant, post-tax profit and other comprehensive income would have been affected as follows:

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2011 $000 | 2010 $000 | 2011 $000 | 2010 $000 |
| **Strengthening of NZ$ against AU$ of ten percent** | | | | |
| Effect on derivative financial instruments | 4,703 | 4,463 | 4,703 | 4,463 |
| Effect on investments in subsidiaries | - | - | (4,703) | (4,463) |
| Effect on foreign currency translation reserve | (10,053) | (10,000) | - | - |
| Effect on net investment in associate | (14,756) | (14,463) | - | - |
| **Weakening of NZ$ against AU$ of ten percent** | | | | |
| Effect on derivative financial instruments | (5,748) | (5,455) | (5,748) | (5,455) |
| Effect on investments in subsidiaries | - | - | 5,748 | 5,455 |
| Effect on foreign currency translation reserve | 10,483 | 10,454 | - | - |
| Effect on net investment in associate | 16,231 | 15,909 | - | - |
| **Strengthening of NZ$ against US$ of ten percent** | | | | |
| Effect on derivative financial instruments | (13,750) | - | (13,750) | - |
| Effect on USPP notes | 84 | - | 84 | - |
| Effect on cash flow hedge reserve | 12,884 | - | 12,884 | - |
| Effect on basis swap – income statement | 782 | - | 782 | - |
| **Weakening of NZ$ against US$ of ten percent** | | | | |
| Effect on derivative financial instruments | 16,632 | - | 16,632 | - |
| Effect on USPP notes | (103) | - | (103) | - |
| Effect on cash flow hedge reserve | (15,748) | - | (15,748) | - |
| Effect on basis swap – income statement | (782) | - | (782) | - |

Significant assumptions used in the foreign currency exposure sensitivity analysis include:

- Reasonably possible movements in foreign exchange rates were determined based on a review of the last two years' historical movements. A movement of plus and minus ten percent has therefore been applied to the exchange rates to demonstrate the sensitivity of foreign currency risk of the company's investment in foreign operations' debt and associated derivative financial instruments.
- The sensitivity was calculated by taking the spot rate as at balance date of 0.7732 for AU$ and 0.8292 for US$ and moving this spot rate by the reasonably possible movements of plus and minus ten percent and then reconverting the foreign currency into NZ$ with the 'new spot rate'. This methodology reflects the translation methodology undertaken by the group.
- The foreign exchange forward contract on the AU$ in place as at 30 June 2011 is 100 percent effective as at 30 June 2011 and is assumed to remain 100 percent effective until maturity. The foreign exchange forward contract is a fair value hedge at the parent level, therefore all movements are taken to the investment in subsidiary, and is in a net investment hedge at the group level, therefore all movements are taken to the foreign currency translation reserve.
- The cross-currency interest rate swap contract on the US$ USPP notes in place as at 30 June 2011 is 100 percent effective as at 30 June 2011 and is assumed to remain 100 percent effective until maturity. The cross-currency interest rate swaps consist of a fair value hedge component where all movements are taken to the USPP notes and a cash flow hedge component where all movements are taken to the cash flow hedge reserve.
- The net exposure at balance date is representative of what the group was and is expecting to be exposed to in the next 12 months from balance date.

At balance date the fair value of foreign currency derivatives are as follows:

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | $000 | $000 | $000 | $000 |
| **Current assets** | | | | |
| Forward foreign exchange contract – net investment hedge | 148 | 902 | - | - |
| Forward foreign exchange contract – fair value hedge | - | - | 148 | 902 |
| **Total** | 148 | 902 | 148 | 902 |
| **Non-current liabilities** | | | | |
| Cross-currency interest rate swaps – fair value hedge | 18,122 | - | 18,122 | - |
| **Total** | 18,122 | - | 18,122 | - |

The value of current assets for derivatives is $2.011 million and includes both the forward foreign exchange contract (above) and the interest rate swaps noted earlier.

**Forward foreign exchange contracts**

*Net investment hedge (group)*

At 30 June 2011, the group held forward foreign exchange contracts to sell AU$40.000 million and buy New Zealand dollars for value on 13 July 2011 at a forward rate of $0.77735. The net investment hedge is a partial hedge of the group's exposure to exchange rate translation risk in the consolidated financial statements arising from Auckland Airport's investment in North Queensland Airports.

Gains or losses on the forward foreign exchange contract and the investment in North Queensland Airports recognised in other comprehensive income and the foreign currency translation reserve during the period were:

| | GROUP | |
|---|---|---|
| | 2011 | 2010 |
| | $000 | $000 |
| Gains/(losses) on translation of the investment | 8,737 | (3,249) |
| Gains/(losses) on the derivatives | (2,635) | 902 |

*Fair value hedge (parent)*

The above mentioned forward foreign exchange contract is designated as a fair value hedge at the parent level and is a hedge of fair value movements arising from Auckland Airport's investment in North Queensland Airports, via its subsidiary Auckland Airport Holdings Limited.

Gains or losses on the forward foreign exchange contract and the investment in North Queensland Airports recognised in the income statement during the period were:

| | PARENT | |
|---|---|---|
| | 2011 | 2010 |
| | $000 | $000 |
| Gains/(losses) on the investment | 754 | (902) |
| Gains/(losses) on the derivatives | (754) | 902 |

# Notes and accounting policies (continued)

For the year ended 30 June 2011

**Cross-currency interest rate swaps and basis swaps**

Cross-currency interest rate swaps combined with the basis swaps are used to convert the US dollar denominated debt issued by the company into synthetic New Zealand dollar denominated debt. Cross-currency interest rate swap contracts combined with basis swap contracts eliminate foreign currency risk on the underlying debt determining the New Zealand dollar equivalent to the interest payments and final principal exchange at the time of entering into the contract.

**(e) Capital risk management**

The group's objective is to maintain a capital structure mix of shareholders' equity and debt that achieves a balance between ensuring the group can continue as a going concern and providing a capital structure that reduces the cost of capital to the group and maximises returns for shareholders.

The appropriate capital structure of the group is determined from consideration of capital structure theory, appropriate credit rating, comparison to peers, sources of finance, borrowing costs, shareholder requirements, the ability to distribute surplus funds efficiently, future business strategies and the ability to withstand business shocks.

The group can maintain or adjust the capital structure by modifying the level of dividends, changing the level of capital expenditure investment, issuing new shares or selling assets to reduce debt. The group monitors the capital structure on the basis of the gearing ratio and by considering the credit rating of the company.

The gearing ratio is calculated as borrowings divided by borrowings plus shareholders' equity. The gearing ratio as at 30 June 2011 is 30.5 percent (2010: 36.2 percent). The current long-term credit rating of Auckland Airport by Standard & Poor's at 30 June 2011 is A– Stable Outlook (2010: A– Stable Outlook).

## 22. Commitments

**(a) Property, plant and equipment commitments**

The group had contractual obligations to suppliers to purchase or develop property, plant and equipment for $17.522 million at balance date (2010: $2.995 million).

**(b) Investment property commitments**

The group had contractual obligations to suppliers to purchase or develop investment property for $3.431 million at balance date (2010: $1.804 million). The company has further contractual obligations to tenants to purchase or develop investment property for $10.000 million at balance date (2010: $18.062 million).

**(c) Operating lease commitments receivable – group as lessor**

The group has commercial properties owned by the company that produce rental income and retail concession agreements that produce retail income.

These non-cancellable leases have remaining terms of between one month and 30 years. All leases include a clause to enable upward revision of the rental charge on contractual rent review dates according to prevailing market conditions.

Future minimum rentals receivable under non-cancellable operating leases as at 30 June are as follows:

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2011 $000 | 2010 $000 | 2011 $000 | 2010 $000 |
| Within one year | 129,374 | 112,983 | 129,374 | 112,983 |
| After one year but no more than five years | 352,839 | 388,613 | 352,839 | 388,613 |
| After more than five years | 103,793 | 93,011 | 103,793 | 93,011 |
| **Total minimum lease payments receivable** | 586,006 | 594,607 | 586,006 | 594,607 |

## 23. Contingent liabilities

### Noise insulation

In December 2001, the Environment Court ratified an agreement that had been reached between Manukau City Council, the company and other interested parties on the location and future operation of a second runway to the north and parallel to the existing runway. Construction of the second runway had commenced but on 28 August 2009 Auckland Airport announced that this construction had been deferred. Auckland Airport has gone through extensive consultation with the airline industry and continues to review capacity management on the existing runway to estimate the optimal time to recommence the construction of a second runway. At this time, the company plans to continue to defer the construction of the second runway for a further period.

Approvals for the second runway include a number of obligations on the company to mitigate the impacts of aircraft noise on the local community. The obligations include the company offering certain acoustic treatment packages to existing homes and schools within defined areas. Noise levels are monitored continually, and as the noise impact area increases, offers will need to be made. The obligation does not extend to new houses. 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 $10.0 million. Pursuant to the aeronautical pricing consultation process between the company and its substantial customers completed on 2 July 2007, future noise costs will be shared between the company and the airlines on a fair and equitable basis. Aeronautical pricing is reviewed at least every five years.

## 24. Provisions for noise mitigation

Since 2005, the company has made acoustic treatment offers to a total of 2,700 houses and five schools. Homeowners of 390 homes and five schools have accepted these offers.

There were 1,055 offers made to homeowners in May 2009. These offers were open for 12 months and have now expired. Of the 1,055 offers made, 67 were accepted by homeowners.

In April 2010, the company made offers to the owners of 177 homes. These offers were open for 12 months and have now expired.

The company received acceptances from the owners of 17 homes relating to the April 2010 offer.

No offers were made in the 2011 financial year.

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. These provisions are expected to be settled in the next 12 months.

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | $000 | $000 | $000 | $000 |
| Opening balance | 567 | 1,505 | 567 | 1,505 |
| Provisions made in the period | 1,911 | - | 1,911 | - |
| Expenditure in the period | (1,246) | (938) | (1,246) | (938) |
| | 1,232 | 567 | 1,232 | 567 |

# Notes and accounting policies (continued)

For the year ended 30 June 2011

## 25. Related party disclosures

### (a) Transactions with related parties

All trading with related parties, including and not limited to licence fees, rentals and other sundry charges, has been made on an arm's-length commercial basis, without special privileges.

HMSC-AIAL Limited was sold on 18 August 2010 for $8.022 million and from that time is no longer a related party. During the year ended 30 June 2010, transactions with HMSC-AIAL Limited totalled $1.298 million. As at 30 June 2010, $0.001 million was owed by HMSC-AIAL Limited.

North Queensland Airports is an associate entity of the company. During the year ended 30 June 2011, Auckland Airport received directors' fees of $0.206 million (2010: $nil) for the provision of two of Auckland Airport's senior management staff who are on the board of directors of North Queensland Airports. These directors apply their airport industry knowledge and skills, supported by the expertise of the other senior management of Auckland Airport, to protect and grow the value of the investment.

The directors of North Queensland Airports declared dividends of AU$27.500 million throughout the year ended 30 June 2011 including a dividend of AU$12.000 million declared on 30 June 2011 (part year ended 30 June 2010: AU$12.200 million). The group's share of the dividends is AU$6.751 million (NZ$8.757 million) (2010: AU$2.995 million, NZ$3.687 million). The dividend declared on 30 June 2011 was subsequently received on 8 August 2011.

Auckland Airport Hotel Limited Partnership is an associate entity of the company. During the year ended 30 June 2011 the group received rental income of $0.098 million (2010: $nil). In addition to this, two of Auckland Airport's senior management staff are directors on the board of the Auckland Airport Hotel Limited Partnership. No directors' fees are paid in relation to these appointments but the skills and experience of these directors are being utilised to protect and grow Auckland Airport's investment.

Queenstown Airport is an associate entity of the company. There have been no material monetary transactions between the entities; however, services have been provided by Auckland Airport in accordance with the Strategic Alliance Agreement, utilising the skills, expertise and experience of some of Auckland Airport's management staff to help protect and grow Auckland Airport's investment in Queenstown.

During the year, Auckland Council's shareholding of Auckland International Airport exceeded 20 percent. As such, accounting standard IAS 24 requires the transactions with Auckland Council to be treated as related party transactions for the year ended 30 June 2011. Rates of $6.025 million and compliance, consent costs and other local government regulatory obligations of $0.480 million were incurred for the year ended 30 June 2011. Auckland Airport also has a grounds maintenance contract with City Park Services, a commercial business of Auckland Council. In the year ended 30 June 2011, grounds maintenance costs of $1.576 million were incurred.

Further, on 28 October 2010 Auckland Airport and Manukau City Council came to an agreement where Auckland Airport agrees to vest approximately 24 hectares of land in the north of the airport to the Council as public open space for consideration of $4.092 million. The vesting of the land will be triggered when building development in that precinct achieves certain levels. The same agreement also rationalised the road network within the airport with some roads to be transferred between the parties and some roads to be acquired by Auckland Airport for $3.109 million. These transactions are not complete as at 30 June 2011 and the obligations and benefits of the agreement relating to Manukau City Council now rest with Auckland Council.

No guarantees have been given or received. No expense has been recognised in the period for bad or doubtful debts in respect of the amounts owed by related parties.

For the year ended 30 June 2011, the group has not made any allowance for impairment loss relating to amounts owed by related parties (2010: $nil).

The company has transactions with other companies in which there are common directorships. All transactions with these entities have been entered into on an arm's-length commercial basis, without special privileges, with the exception of the loans to Auckland Airport Limited and Auckland Airport Holdings (No. 2) Limited which are interest free (refer note 7).

### (b) Loans to related parties

At 30 June 2011, $139.464 million (2010: $134.208 million) is owing from Auckland Airport Holdings Limited to Auckland International Airport Limited. Repayment of $8.656 million was made during the year, funded by way of dividends from North Queensland Airports. The loan is repayable on demand. Interest charged was $13.902 million (2010: $6.187 million) at a rate of 10.5 percent.

At 30 June 2011 a loan of $6.200 million (2010: $2.776 million) was owing from Auckland Airport Limited to Auckland International Airport Limited. No repayment was made during the year. The loan is interest free and repayable on demand.

During the year a loan of $28.079 million (2010: $nil) was made from Auckland International Airport Limited to Auckland Airport Holdings (No. 2) Limited. No repayment was made during the year. The loan is interest free and repayable on demand.

At 30 June 2011 a loan of $0.095 million (2010: $0.223 million) was owing from Auckland International Airport Limited Share Purchase Plan to Auckland International Airport Limited. The loan is interest free and repayable on demand.

### (c) Key personnel compensation

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

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | $000 | $000 | $000 | $000 |
| Directors' fees | 987 | 920 | 987 | 920 |
| Senior management's salary and other short-term benefits | 4,469 | 3,600 | 4,469 | 3,600 |
| Termination payments | | - | | - |
| Senior management's share-based payment expense (refer note 26) | 792 | 1,258 | 792 | 1,258 |
| **Total key personnel compensation** | 6,248 | 5,778 | 6,248 | 5,778 |

## 26. Share-based payment plans

The expense arising from share-based payment plans recognised for employee services performed during the year were:

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | $000 | $000 | $000 | $000 |
| Expense from equity-settled share-based payments (employee share purchase plan) | 7 | 11 | 7 | 11 |
| Expense from cash-settled share-based payments (phantom option plan) | 753 | 228 | 753 | 228 |
| **Total expense from share-based payment transactions** | 760 | 239 | 760 | 239 |

### (a) Employee share purchase plan

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

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

The company advanced to the purchase plan all the monies necessary to purchase the shares under the purchase plan. The advances are repayable by way of deduction from the employee's regular remuneration. The terms of such loans are determined by the company. The amount payable by the purchase plan to the company at balance date is $0.095 million (2010: $0.223 million). These advances are interest free.

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

The purchase plan's trustees as at 30 June 2011 are J Nicholl, S Robertson and C Spillane. J Nicholl is the general manager aeronautical operations, S Robertson is the chief financial officer and C Spillane is general manager corporate affairs of Auckland International Airport Limited. The trustees are appointed and can be removed by the directors.

# Notes and accounting policies (continued)

For the year ended 30 June 2011

The following ordinary shares were allocated to employees under the purchase plan:

| | 2011 Shares | 2010 Shares |
|---|---|---|
| **Employee allocation – May 2009** | | |
| Opening balance | 253,000 | 284,100 |
| Shares fully paid and allocated during the year | (12,000) | (12,000) |
| Shares forfeited during the year | (12,000) | (19,100) |
| **Balance at end of the year** | 229,000 | 253,000 |

Shares were issued at a price of $1.515, on 21 May 2009, being a 10 percent discount on the average market selling price over the 10 trading days ending on 14 April 2009.

| | 2011 Shares | 2010 Shares |
|---|---|---|
| **Unallocated shares held by the plan** | | |
| Balance of unallocated shares from November 1999 share allocation | 91,584 | 91,584 |
| Balance of unallocated shares from May 2004 share allocation | 54,560 | 54,560 |
| Balance of unallocated shares from May 2009 share allocation | 31,100 | 19,100 |
| **Total unallocated shares held by the plan** | 177,244 | 165,244 |
| **Total ordinary shares held at 30 June** | 406,244 | 418,244 |

The shares for the November 1999 share allocation were acquired by the trustees at an average price of $2.93 each on 28 September 1999. The shares for the May 2004 share allocation were acquired by the trustees at $5.14 on 28 May 2004. The acquisition prices, after adjusting for a four-for-one share split completed in April 2005, are $0.73 and $1.29 respectively.

Shares held by the purchase plan represent 0.0307 percent (2010: 0.0319 percent) of the total company's shares on issue.

**(b) Executive share option incentive plan**

As part of previous remuneration packages, the company 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 were aligned. The company had issued options for shares in the company to certain employees under the terms of the option plan. The holder of an option was entitled to subscribe for one fully paid ordinary share for each option. The exercise price was determined based on the company's share price at the date of issue of the option adjusted to reflect movements in the NZX 50 gross index between the date of issue and the date of exercise of the option, less any dividends and capital repayments which the company had paid during this period. The number of options had been increased to reflect the four-for-one share split completed in April 2005. No options were exercisable until after the third anniversary of issue of the option. If options were not exercised before the sixth anniversary of issue then they were deemed to have lapsed. Options lapsed when an employee terminated their employment with the company other than through retirement.

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

The last issue of options under the option plan was made on 12 January 2004 and these options were exercised in the financial year to 30 June 2010.

Details of options for the parent and the group under the option plan are as follows:

**For the year ended 30 June 2010**

| **Issue date** | Expiry date | Base exercise price | Opening number of options | Exercised during the year | Closing number of options | Exercisable at end of the year |
|---|---|---|---|---|---|---|
| 12/01/2004 | 12/01/2010 | 1.59 | 640,000 | 640,000 | - | - |
| **Weighted average exercise price per share** | | | $1.45 | $1.66 | - | - |

There are no share options outstanding as at 30 June 2011 (2010: nil).

There were no options issued during the year ended 30 June 2011 (2010: nil).

The value of the equity-settled share options granted is estimated at the grant date using the Fischer/Margrabe variation of the Black-Scholes model, taking into account the terms and conditions upon which the options were issued.

### (c) Phantom option plan

The directors have ceased using the option plan described above to align leadership remuneration to the interests of shareholders and instead the directors adopted a Phantom Option Plan (phantom plan) approach for each calendar year from 2003 to 2010.

The 2003 phantom plan mirrors the economic effect of the previous executive share option plan. The level of the incentive is based on the movement in the company's share price exceeding the movement in the NZX 50 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 phantom plans for the years 2004 to 2008 have two components. One component involves the notional 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 notional 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. The phantom plans for the 2009 and 2010 years involve the notional allocation of options at prevailing market rates. The executive may not exercise the options unless total shareholder returns are equal to or greater than the independently calculated annual cost of equity plus one percent. Any benefit above the initial issue price is payable in cash, less tax, three to five years after allocation.

Under a further phantom option plan, S Moutter has been granted three million phantom options upon commencement of his employment as chief executive with Auckland Airport on 4 August 2008. As with the other phantom plans, the phantom options issued to S Moutter are not securities issued by Auckland Airport and no securities will be issued on the exercise of those phantom options. Instead, when phantom options are exercised by S Moutter in accordance with the terms of S Moutter's long-term incentive plan, Auckland Airport is required to pay a cash amount (less tax) to him in respect of the options being exercised. The cash amount in respect of each option being exercised will be equal to the closing price of Auckland Airport ordinary shares on the NZSX on the business day immediately preceding the exercise date minus the sum of $2.20 (which is the notional exercise price for the phantom option).

S Moutter is entitled to exercise up to one million phantom options at any time after the date three years after his employment with Auckland Airport commenced, up to a further one million phantom options at any time after the date four years after his commencement date and up to a further one million phantom options at any time after the date five years after his commencement date.

Subsequent to year end, the company entered into another long-term incentive plan and retention agreement with S Moutter. The new long-term incentive plan supplements the plan that commenced on 4 August 2008. Under this new plan, S Moutter has been granted two million phantom options with effect from 25 August 2010. The workings of the new plan are the same as the 2008 plan except that the notional exercise price is $2.093. The retention agreement element entails the payment of $0.750 million on 31 August 2013 should S Moutter remain in Auckland Airport's employment and certain EBITDA and EV/EBITDA performance thresholds are met to the satisfaction of the board.

S Moutter is entitled to exercise up to 666,000 phantom options at any time after 25 August 2013, up to a further 666,000 phantom options at any time after 25 August 2014 and up to a further 668,000 phantom options at any time after 25 August 2015.

Once they become exercisable, S Moutter's phantom options shall remain exercisable by him for a period of two years from the date they become exercisable. Any phantom options not exercised by this time shall automatically lapse. S Moutter may not give an exercise notice in respect of any phantom option unless total shareholder returns are equal to or greater than a compound pre-tax rate of 12 percent per annum. S Moutter has not participated in the other phantom option plans.

As at 30 June 2011, the fair value of the cash-settled phantom plans for all the participating executives is $2.600 million (2010: $2.000 million) and full provision has been made for this in the financial statements.

Any expense reversal or expense relating to the change in fair value or cash payments has been included in staff expenses in the income statement. Cash-settled share-based payments under the phantom plan were $0.153 million during the year ended 30 June 2011 (2010: $0.228 million).

The fair value of the cash-settled phantom options is measured at the reporting date using the Black-Scholes methodologies, taking into account the terms and conditions upon which the instruments were granted. The expected life of each phantom option assumes that participants exercise the phantom option at the optimal time to maximise expected value.

# Notes and accounting policies (continued)

For the year ended 30 June 2011

The following table lists the key inputs to the models used for the years ended 30 June 2011 and 30 June 2010:

| | Assumptions 2011 | Assumptions 2010 |
|---|---|---|
| Expected volatility (%) | 17.8% | 21.9% |
| Risk-free interest rate (%) | 3.40% | 4.13% |
| Share price at measurement date ($) | $2.23 | $1.87 |

**Phantom options**
**As at 30 June 2011**

| Issue date | Date exercisable | Expiry date | Number granted | Number lapsed | Number exercised | Number at 30 June 2011 | Number exercisable at 30 June 2011 | Share price to meet hurdle rate at 30 June 2011 |
|---|---|---|---|---|---|---|---|---|
| 26/08/2005 | 26/08/2008 | 26/08/2011 | 3,699,869 | 1,806,038 | - | 1,893,831 | - | $3.22 |
| 26/08/2006 | 26/08/2009 | 26/08/2012 | 2,593,825 | 1,698,303 | - | 895,522 | - | $2.88 |
| 24/08/2007 | 24/08/2010 | 24/08/2013 | 1,592,928 | 911,747 | - | 681,181 | - | $4.30 |
| 4/08/2008 | 4/08/2011 | 4/08/2013 | 1,000,000 | - | - | 1,000,000 | - | $2.71 |
| 4/08/2008 | 4/08/2012 | 4/08/2014 | 1,000,000 | - | - | 1,000,000 | - | $2.71 |
| 4/08/2008 | 4/08/2013 | 4/08/2015 | 1,000,000 | - | - | 1,000,000 | - | $2.71 |
| 22/08/2008 | 22/08/2011 | 22/08/2014 | 2,313,201 | 1,417,438 | - | 895,763 | - | $2.49 |
| 31/08/2009 | 31/08/2012 | 31/08/2014 | 2,587,973 | 476,660 | - | 2,111,313 | - | $1.90 |
| 27/08/2010 | 27/08/2013 | 27/08/2015 | 2,224,111 | 390,791 | - | 1,833,320 | - | $2.09 |

**As at 30 June 2010**

| Issue date | Date exercisable | Expiry date | Number granted | Number lapsed | Number exercised | Number at 30 June 2010 | Number exercisable at 30 June 2010 | Share price to meet hurdle rate at 30 June 2010 |
|---|---|---|---|---|---|---|---|---|
| 4/09/2003 | 4/09/2006 | 4/09/2009 | 2,820,000 | 464,000 | 2,356,000 | - | - | N/A |
| 26/08/2005 | 26/08/2008 | 26/08/2011 | 3,699,869 | 1,342,440 | - | 2,357,429 | - | $2.98 |
| 26/08/2006 | 26/08/2009 | 26/08/2012 | 2,593,825 | 1,331,602 | - | 1,262,223 | - | $2.68 |
| 24/08/2007 | 24/08/2010 | 24/08/2013 | 1,592,928 | 729,235 | - | 863,693 | - | $3.98 |
| 4/08/2008 | 4/08/2011 | 4/08/2013 | 1,000,000 | - | - | 1,000,000 | - | $2.51 |
| 4/08/2008 | 4/08/2012 | 4/08/2014 | 1,000,000 | - | - | 1,000,000 | - | $2.51 |
| 4/08/2008 | 4/08/2013 | 4/08/2015 | 1,000,000 | - | - | 1,000,000 | - | $2.51 |
| 22/08/2008 | 22/08/2011 | 22/08/2014 | 2,313,201 | 1,055,890 | - | 1,257,311 | - | $2.33 |
| 31/08/2009 | 31/08/2012 | 31/08/2014 | 2,587,973 | - | - | 2,587,973 | - | $1.79 |

**Phantom shares**
**As at 30 June 2011**

| Issue date | Settlement date | Number granted | Number lapsed | Number settled | Number at 30 June 2011 |
|---|---|---|---|---|---|
| 24/08/2007 | 24/08/2010 | 143,277 | 65,591 | 77,686 | - |
| 22/08/2008 | 22/08/2011 | 165,872 | 101,640 | - | 64,232 |

**As at 30 June 2010**

| Issue date | Settlement date | Number granted | Number lapsed | Number settled | Number at 30 June 2010 |
|---|---|---|---|---|---|
| 25/08/2006 | 25/08/2009 | 175,542 | 90,119 | 85,423 | - |
| 24/08/2007 | 24/08/2010 | 143,277 | 65,591 | - | 77,686 |
| 22/08/2008 | 22/08/2011 | 165,872 | 75,714 | - | 90,158 |

## 27. Events subsequent to balance date

On 23 August 2011, the directors approved the payment of a fully imputed final dividend of 4.70 cents per share, amounting to $62.160 million to be paid on 21 October 2011.

# Audit report

For the year ended 30 June 2011

Deloitte.

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

### Report on the financial statements

We have audited the financial statements of Auckland International Airport Limited and group on pages 50 to 113, which comprise the consolidated and separate statements of financial position of Auckland International Airport Limited as at 30 June 2011, the consolidated and separate income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Board of directors' responsibility for the financial statements

The Board of directors is responsible for the preparation of financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate, and for such internal control as the Board of Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's responsibilities

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates, as well as the overall presentation of the financial statements.

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

Other than in our capacity as auditor, AGM vote scrutineer assistance and the provision of taxation advice, we have no relationship with or interests in Auckland International Airport Limited or any of its subsidiaries.

### Opinion

In our opinion, the financial statements on pages 50 to 113:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- give a true and fair view of the financial position of Auckland International Airport Limited and group as at 30 June 2011, and their financial performance and cash flows for the year then ended.

### Report on other legal and regulatory requirements

We also report in accordance with section 16 of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 30 June 2011:

- we have obtained all the information and explanations we have required; and
- in our opinion proper accounting records have been kept by Auckland International Airport Limited as far as appears from our examination of those records.

Deloitte

Chartered Accountants
23 August 2011
Auckland, New Zealand

This audit report relates to the financial statements of Auckland International Airport Limited and group for the year ended 30 June 2011 included on Auckland International Airport Limited's website. The Board of Directors is responsible for the maintenance and integrity of Auckland International Airport Limited's website. We have not been engaged to report on the integrity of Auckland International Airport Limited's website. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and related audit report dated 23 August 2011 to confirm the information included in the audited financial statements presented on this website. Legislation in New Zealand governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Five year summary

For the year ended 30 June 2011

| Group income statement | 2011 $000 | 2010 $000 | 2009 $000 | 2008 $000 | 2007 $000 |
|---|---|---|---|---|---|
| **Income** | | | | | |
| Airfield income | 72,529 | 66,715 | 70,458 | 70,129 | 66,266 |
| Passenger services charge | 78,760 | 73,252 | 66,542 | 66,952 | 64,389 |
| Terminal services charge | 28,342 | 27,814 | 27,470 | 22,897 | 21,888 |
| Retail income | 111,150 | 95,817 | 105,316 | 98,427 | 93,744 |
| Rental income | 49,927 | 48,533 | 47,975 | 45,172 | 33,267 |
| Rates recoveries | 4,313 | 2,982 | 3,210 | 3,132 | 2,736 |
| Car park income | 33,437 | 31,057 | 29,377 | 29,252 | 25,878 |
| Interest income | 1,460 | 1,678 | 2,611 | 563 | 1,076 |
| Other | 17,805 | 15,265 | 15,336 | 13,455 | 11,798 |
| **Total income** | 397,723 | 363,113 | 368,295 | 349,979 | 321,042 |
| **Expenses** | | | | | |
| Staff | 32,607 | 31,574 | 34,337 | 24,893 | 36,045 |
| Asset management, maintenance and airport operations | 32,854 | 30,948 | 30,158 | 25,717 | 22,987 |
| Rates and insurance | 7,829 | 7,035 | 6,845 | 7,389 | 6,271 |
| Marketing and promotions | 11,751 | 4,544 | 1,801 | 2,705 | 1,437 |
| Other | 14,453 | 12,701 | 15,740 | 14,490 | 12,490 |
| **Total expenses** | 99,494 | 86,802 | 88,881 | 75,194 | 79,230 |
| **Earnings before interest, taxation, depreciation, fair value adjustments and investments in associates (EBITDAFI)** | 298,229 | 276,311 | 279,414 | 274,785 | 241,812 |
| Share of profit of associate | 4,755 | 890 | 949 | 1,051 | 904 |
| Share of loss of associate | - | (792) | - | - | - |
| Gain on sale of associate | 1,240 | - | - | - | - |
| Derivative fair value change | 3,503 | - | - | - | - |
| Property, plant and equipment revaluation | (63,465) | | | | |
| Investment property fair value increases/(decreases) | 21,640 | 9,469 | (64,586) | 13,721 | 140,160 |
| Costs relating to ownership proposals | - | - | - | (9,588) | - |
| **Earnings before interest, taxation and depreciation (Total EBITDA)** | 265,902 | 285,878 | 215,777 | 279,969 | 382,876 |
| Depreciation | 56,843 | 55,736 | 54,766 | 46,973 | 43,184 |
| **Earnings before interest and taxation (EBIT)** | 209,059 | 230,142 | 161,011 | 232,996 | 339,692 |
| Interest expense and other finance costs | 70,417 | 71,938 | 75,590 | 72,548 | 62,739 |
| **Profit before taxation** | 138,642 | 158,204 | 85,421 | 160,448 | 276,953 |
| Taxation expense | 37,881 | 128,510 | 43,696 | 47,489 | 46,089 |
| **Profit after taxation** | 100,761 | 29,694 | 41,725 | 112,959 | 230,864 |

# Five year summary (continued)

For the year ended 30 June 2011

| Group statement of comprehensive income | 2011 $000 | 2010 $000 | 2009 $000 | 2008 $000 | 2007 $000 |
|---|---|---|---|---|---|
| **Profit for the period** | 100,761 | 29,694 | 41,725 | 112,959 | 230,864 |
| **Other comprehensive income** | | | | | |
| Property, plant and equipment net revaluation movements | 582,698 | - | - | - | - |
| Tax on the property, plant and equipment revaluation reserve | (47,548) | 7,862 | 625 | 58 | 11,496 |
| Total property, plant and equipment revaluation reserve movement | 535,150 | 7,862 | 625 | 58 | 11,496 |
| Foreign currency translation reserve | 6,102 | (2,347) | - | - | - |
| Movement in share-based payments | 7 | 11 | - | 31 | 92 |
| Movement in share of reserves of associate | (481) | (1,202) | - | - | - |
| Cash flow hedges: | | | | | |
| Fair value gains/(losses) recognised in the cash flow hedge reserve | (16,198) | (15,323) | (30,230) | (2,467) | 10,457 |
| Realised (gains)/losses transferred to the income statement | 13,733 | 20,812 | (5,683) | (5,489) | (331) |
| Tax effect of movements in the cash flow hedge reserve | 690 | (2,172) | 9,521 | - | - |
| Total cash flow hedge movement | (1,775) | 3,317 | (26,392) | (7,956) | 10,126 |
| **Total other comprehensive income** | 539,003 | 7,641 | (25,767) | (7,867) | 21,714 |
| **Total comprehensive income for the period, net of tax** | 639,764 | 37,335 | 15,958 | 105,092 | 252,578 |

| Group statement of changes in equity | 2011 $000 | 2010 $000 | 2009 $000 | 2008 $000 | 2007 $000 |
|---|---|---|---|---|---|
| **At 1 July** | 1,913,634 | 1,841,147 | 1,896,633 | 1,914,965 | 1,760,208 |
| Profit for the period | 100,761 | 29,694 | 41,725 | 112,959 | 230,864 |
| Other comprehensive income/(loss) | 539,003 | 7,641 | (25,767) | (7,867) | 21,714 |
| **Total comprehensive income/(loss)** | 639,764 | 37,335 | 15,958 | 105,092 | 252,578 |
| Buy-back of shares | - | - | - | - | - |
| Shares issued | 25,141 | 138,507 | 4,473 | 1,208 | 2,266 |
| Dividend paid | (111,008) | (103,355) | (75,917) | (124,632) | (100,087) |
| **At 30 June** | 2,467,531 | 1,913,634 | 1,841,147 | 1,896,633 | 1,914,965 |

| Group balance sheet | 2011 $000 | 2010 $000 | 2009 $000 | 2008 $000 | 2007 $000 |
|---|---|---|---|---|---|
| **Non-current assets** | | | | | |
| Property, plant and equipment | | | | | |
| Freehold land | 1,909,347 | 1,498,579 | 1,499,232 | 1,495,138 | 1,492,015 |
| Buildings and services | 518,325 | 535,617 | 545,261 | 543,348 | 472,095 |
| Infrastructure | 280,026 | 226,528 | 227,548 | 217,846 | 198,728 |
| Runways, taxiways and aprons | 307,141 | 251,027 | 257,788 | 251,953 | 252,647 |
| Vehicles, plant and equipment | 20,581 | 21,113 | 17,780 | 14,734 | 12,517 |
| | 3,035,420 | 2,532,864 | 2,547,609 | 2,523,019 | 2,428,002 |
| Investment properties | 546,232 | 490,131 | 467,537 | 524,280 | 509,900 |
| Investment in associate – HMSC-AIAL Ltd | - | - | 5,892 | 4,943 | 3,892 |
| Investment in associate | 197,635 | 161,867 | - | - | - |
| Derivative financial instruments | 8,687 | 7,596 | 5,334 | 6,991 | 12,507 |
| Other non-current assets | 775 | 775 | 775 | 775 | 775 |
| | 3,788,749 | 3,193,233 | 3,027,147 | 3,060,008 | 2,955,076 |
| **Current assets** | | | | | |
| Cash | 46,146 | 36,052 | 34,320 | 693 | 1,594 |
| Inventories | 67 | 102 | 130 | 178 | 134 |
| Prepayments | 4,941 | 5,188 | 3,309 | 3,220 | 2,890 |
| Accounts receivable | 20,476 | 16,112 | 17,321 | 14,789 | 12,140 |
| Dividend receivable | 3,820 | 3,687 | - | - | - |
| Taxation receivable | - | - | 4,293 | 13,727 | 10,180 |
| Held for sale investment in associate | - | 6,782 | - | - | - |
| Derivative financial instruments | 2,011 | 902 | 1,683 | 292 | 669 |
| | 77,461 | 68,825 | 61,002 | 32,899 | 27,607 |
| **Total assets** | 3,866,210 | 3,262,058 | 3,088,149 | 3,092,907 | 2,982,683 |

# Five year summary (continued)

For the year ended 30 June 2011

| Group balance sheet | 2011 $000 | 2010 $000 | 2009 $000 | 2008 $000 | 2007 $000 |
|---|---|---|---|---|---|
| **Shareholders' equity** | | | | | |
| Issued and paid-up capital | 338,386 | 313,245 | 174,738 | 170,265 | 169,057 |
| Cancelled share reserve | (161,304) | (161,304) | (161,304) | (161,304) | (161,304) |
| Retained earnings | 158,407 | 150,471 | 220,251 | 251,786 | 262,325 |
| Property, plant and equipment revaluation reserve | 2,149,731 | 1,632,764 | 1,628,783 | 1,630,815 | 1,631,891 |
| Share-based payments reserve | 913 | 906 | 895 | 895 | 864 |
| Cash flow hedge reserve | (20,674) | (18,899) | (22,216) | 4,176 | 12,132 |
| Share of reserves of associates | (1,683) | (1,202) | - | - | - |
| Foreign currency translation reserve | 3,755 | (2,347) | - | - | - |
| | 2,467,531 | 1,913,634 | 1,841,147 | 1,896,633 | 1,914,965 |
| **Non-current liabilities** | | | | | |
| Term borrowings | 652,640 | 885,218 | 803,707 | 741,727 | 587,490 |
| Derivative financial instruments | 41,146 | 25,802 | 29,279 | 3,758 | 6,151 |
| Deferred tax liability | 205,112 | 172,083 | 91,302 | 99,923 | 95,361 |
| Other term liabilities | 707 | 531 | 438 | 430 | 440 |
| | 899,605 | 1,083,634 | 924,726 | 845,838 | 689,442 |
| **Current liabilities** | | | | | |
| Accounts payable | 52,775 | 45,983 | 42,753 | 45,730 | 58,172 |
| Derivative financial instruments | 2,784 | 2,751 | 5,020 | 748 | - |
| Taxation provision | 10,277 | 8,709 | - | - | - |
| Short-term borrowings | 432,006 | 206,780 | 272,998 | 300,793 | 317,042 |
| Provision for noise mitigation | 1,232 | 567 | 1,505 | 3,165 | 3,062 |
| | 499,074 | 264,790 | 322,276 | 350,436 | 378,276 |
| **Total equity and liabilities** | 3,866,210 | 3,262,058 | 3,088,149 | 3,092,907 | 2,982,683 |

| Statement of cash flows | 2011 $000 | 2010 $000 | 2009 $000 | 2008 $000 | 2007 $000 |
|---|---|---|---|---|---|
| **Cash flow from operating activities** | | | | | |
| Cash was provided from: | | | | | |
| Receipts from customers | 393,563 | 363,097 | 363,501 | 345,973 | 320,415 |
| Income tax refunded | - | 3,233 | 11,621 | - | - |
| Interest received | 1,460 | 1,678 | 2,611 | 563 | 1,076 |
| | 395,023 | 368,008 | 377,733 | 346,536 | 321,491 |
| Cash was applied to: | | | | | |
| Payments to suppliers and employees | (99,890) | (87,423) | (87,715) | (95,980) | (66,987) |
| Income tax paid | (50,142) | (32,329) | (44,304) | (46,416) | (44,243) |
| Other taxes paid | (289) | (248) | (344) | (328) | (318) |
| Interest paid | (69,761) | (71,752) | (75,292) | (69,484) | (62,789) |
| | (220,082) | (191,752) | (207,655) | (212,208) | (174,337) |
| **Net cash flow from operating activities** | 174,941 | 176,256 | 170,078 | 134,328 | 147,154 |
| **Cash flow from investing activities** | | | | | |
| Cash was provided from: | | | | | |
| Proceeds from sale of assets | 30 | 2 | 371 | 62 | 233 |
| Proceeds from sale of investment in associate | 8,022 | - | - | - | - |
| Other investing activities | 9,558 | - | - | - | 500 |
| | 17,610 | 2 | 371 | 62 | 733 |
| Cash was applied to: | | | | | |
| Purchase of property, plant and equipment | (35,595) | (42,897) | (82,517) | (135,964) | (84,325) |
| Interest paid – capitalised | (1,197) | (2,102) | (3,889) | (6,831) | (2,833) |
| Expenditure on investment properties | (31,587) | (8,338) | (7,303) | (3,350) | (15,249) |
| Other investing activities | (31,511) | (170,797) | - | - | (200) |
| | (99,890) | (224,134) | (93,709) | (146,145) | (102,607) |
| **Net cash applied to investing activities** | (82,280) | (224,132) | (93,338) | (146,083) | (101,874) |
| **Cash flow from financing activities** | | | | | |
| Cash was provided from: | | | | | |
| Increase in share capital | 25,141 | 138,507 | 4,473 | 1,208 | 2,285 |
| Increase in borrowings | 2,186,300 | 2,699,456 | 3,383,955 | 3,959,573 | 2,103,650 |
| | 2,211,441 | 2,837,963 | 3,388,428 | 3,960,781 | 2,105,935 |
| Cash was applied to: | | | | | |
| Decrease in borrowings | (2,183,000) | (2,685,000) | (3,355,624) | (3,825,295) | (2,049,858) |
| Dividends paid | (111,008) | (103,355) | (75,917) | (124,632) | (100,087) |
| Buy-back of shares | - | - | - | - | - |
| | (2,294,008) | (2,788,355) | (3,431,541) | (3,949,927) | (2,149,945) |
| **Net cash flow applied to financing activities** | (82,567) | 49,608 | (43,113) | 10,854 | (44,010) |
| Net increase/(decrease) in cash held | 10,094 | 1,732 | 33,627 | (901) | 1,270 |
| Opening cash brought forward | 36,052 | 34,320 | 693 | 1,594 | 324 |
| **Ending cash carried forward** | 46,146 | 36,052 | 34,320 | 693 | 1,594 |

# Five year summary (continued)

For the year ended 30 June 2011

| Key performance indicators | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| **Financial performance** | | | | | |
| Underlying operating EBITDAFI margin | 75.0% | 76.1% | 77.0% | 77.2% | 78.4% |
| Underlying profit after-tax return on capital employed | 5.5% | 5.6% | 5.7% | 5.4% | 5.3% |
| Underlying earnings per share (cps) | 9.18 | 8.35 | 8.65 | 8.49 | 8.22 |
| **Financial position and gearing** | | | | | |
| Debt/Debt + equity (%) | 30.5% | 36.3% | 36.9% | 35.5% | 32.1% |
| Debt/Underlying EBITDAFI (times) | 3.64 | 3.92 | 3.74 | 3.61 | 3.51 |
| Underlying EBITDAFI interest cover (times) | 4.16 | 3.73 | 3.57 | 3.43 | 3.84 |
| Net tangible assets per share | 1.87 | 1.46 | 1.50 | 1.55 | 1.57 |
| **Operating efficiencies** | | | | | |
| Passengers per operating staff | 47,366 | 44,491 | 41,289 | 43,281 | 43,908 |
| Operating income per average operating staff ($) | 1,362,712 | 1,201,303 | 1,173,566 | 1,167,648 | 1,144,126 |
| Operating income per passenger ($) | 28.77 | 27.00 | 28.42 | 26.59 | 26.06 |
| Retail income per international passenger ($) | 14.28 | 12.92 | 14.31 | 13.19 | 12.87 |
| Car park income per passenger ($) | 2.60 | 2.47 | 2.45 | 2.38 | 2.26 |
| Operating staff costs/operating income | 8.2% | 8.7% | 9.3% | 7.1% | 11.2% |

| Capital expenditure | 2011 $m | 2010 $m | 2009 $m | 2008 $m | 2007 $m |
|---|---|---|---|---|---|
| Aeronautical | 14.6 | 12.3 | 45.4 | 108.3 | 74.4 |
| Retail | 10.4 | 24.3 | 12.1 | 8.4 | 0.5 |
| Property development | 46.2 | 11.9 | 8.8 | 6.7 | 18.0 |
| Infrastructure and other | 3.0 | 5.4 | 9.5 | 15.5 | 12.0 |
| Car parking | 0.6 | 0.4 | 11.8 | 4.0 | 0.5 |
| **Total** | 74.8 | 54.3 | 87.6 | 142.9 | 105.4 |

| Passenger, aircraft and MCTOW | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| **Passenger movements** | | | | | |
| International | 7,781,819 | 7,415,792 | 7,359,611 | 7,462,683 | 7,286,397 |
| Domestic | 6,042,468 | 6,032,410 | 5,598,077 | 5,740,089 | 5,068,794 |
| **Aircraft movements** | | | | | |
| International | 43,782 | 42,697 | 40,756 | 39,053 | 38,406 |
| Domestic | 110,508 | 112,274 | 116,032 | 120,574 | 117,469 |
| **MCTOW (tonnes)** | | | | | |
| International | 4,007,728 | 3,923,988 | 4,075,946 | 4,120,430 | 4,085,290 |
| Domestic | 1,682,824 | 1,746,912 | 1,774,079 | 1,816,370 | 1,661,844 |

# Corporate governance

For the year ended 30 June 2011

Auckland Airport's board of directors is responsible for the company's corporate governance. The board is committed to undertaking this role in accordance with internationally accepted best practice appropriate to the company's business. It also takes account of the company's listing on both the NZSX and the ASX. The company's corporate governance practices fully reflect and satisfy the ASX Corporate Governance Council's 'Corporate Governance Principles and Recommendations' (second edition), (ASX Principles) and the 'NZX Corporate Governance Best Practice Code' (NZX Code).

The comprehensive ASX Principles set out eight fundamental principles of good corporate governance. The structure of this corporate governance section of the annual report reflects the company's compliance with those fundamental principles. This approach has been adopted to maximise the transparency of the company's corporate governance practices for the benefit of shareholders and other stakeholders. This is consistent with the approach taken in the last four annual reports and helps readers compare reports.

The company's constitution, and each of the charters and policies referred to in this corporate governance section, are available on the corporate information section of the company's website – www.aucklandairport.co.nz (the Company Website).

## Principle 1: Lay solid foundations for management and oversight

The board's charter recognises the respective roles of the board and management. The charter reflects the sound base the board has developed for providing strategic guidance for the company and the effective oversight of management. The board charter can be found on the Company Website.

The board's primary governance roles are:

- working with company management to ensure that the company's strategic goals are clearly established and communicated, and that strategies are in place to achieve them;
- monitoring management performance in strategy implementation;
- appointing the chief executive, reviewing the chief executive's performance and, where necessary, terminating the chief executive's employment;
- approving the appointment of the corporate secretary;
- approving remuneration policies applicable to senior management;
- approving and monitoring the company's financial statements and other reporting, including reporting to shareholders, and ensuring the company's obligations of continuous disclosure are met;
- ensuring that the company adheres to high ethical and corporate behaviour standards;
- establishing procedures and systems to ensure the occupational health and safety of the company's employees;
- promoting a company culture and remuneration practice which facilitates the recruitment, professional development and retention of staff;
- ensuring that the company has appropriate risk management and regulatory compliance policies in place, and monitoring the appropriateness and implementation of those policies.

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

- audit and risk;
- remuneration; and
- nominations.

The roles of these committees are detailed later in this report.

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

All directors have been issued letters setting out the terms and conditions of their appointment. A copy of the standard form of this letter is available on the Company Website. This letter may be changed with the agreement of the board. The chief executive and other members of the senior management team have employment agreements setting out their roles and conditions of employment. The company has set detailed delegated authorities controlling the extent to which employees can commit to the company.

The performance of the chief executive and management reporting directly to the chief executive is reviewed annually in accordance with formal review procedures. Each member of the senior management team participates in a formal performance development process which forms the basis of a review by the chief executive. The performance review includes assessment against targeted key performance indicators and company values.

The performance of the chief executive is also reviewed in accordance with this procedure, with the review being undertaken by the chair of the board.

The performance of all members of the senior management team was reviewed in the 2011 financial year in accordance with this process.

## Principle 2: Structure the board to add value

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

The board currently comprises eight directors. Joan Withers, Keith Turner, John Brabazon, Richard Didsbury. Brett Godfrey, Sir Henry van der Heyden and James Miller are considered by the board to be 'independent' directors. Lloyd Morrison is not considered to be independent. In judging whether a director is 'independent', the board has regard to whether or not the director:

# Corporate governance (continued)

For the year ended 30 June 2011

- is a Substantial Security Holder (as that term is defined in section 2 of the Securities Markets Act 1988) in the company, or is an officer of, or otherwise associated directly with, a Substantial Security Holder of the company;
- is or has within the past three years been employed in an executive capacity by the company or has been a director after ceasing to hold any such employment and there has not been a period of at least three years between ceasing such employment and serving on the board;
- has been within the last three years a material supplier or customer of the company, or is an officer or employee of or otherwise associated with a material supplier or customer;
- has a material contractual or other material relationship with the company other than as a director;
- has been within the last three years a principal of a material professional advisor or a material consultant to the company or another group member, or an employee materially associated with the service provided;
- has served on the board for a period that, in the board's opinion, could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the company;
- is free from any other interests or any business or other relationships (including familial) that could, or could be perceived to, interfere with the director's unfettered and independent judgement and ability to act in the best interests of the company; and
- or any associated person of the director, has derived, or is likely to derive, in the current financial year ten percent or more of that person's annual revenue from, or by virtue of, a relationship (other than as a director of the company) the director or the associated person of the director has with the company or a Substantial Security Holder of the company.

The directors as at the date of this annual report and the dates of their appointment are:

| | |
|---|---|
| Joan Withers MBA, AFInstD (chair) | 29 October 1997 |
| Keith Turner BE (Hons), ME, PhD, FIEE, Dist. FIPENZ FNZIM (deputy chair) | 21 April 2004 |
| John Brabazon BCom, ACA, AFInstD, F FIN | 20 November 2007 |
| Richard Didsbury BE | 20 November 2007 |
| Brett Godfrey BCom, ACA | 28 October 2010 |
| James Miller BCom, FCA, AMInstD | 4 September 2009 |
| Lloyd Morrison LLB (Hons) | 20 November 2007 |
| Sir Henry van der Heyden KNZM, BE (Hons) | 4 September 2009 |

The chief executive, Simon Moutter, is not a member of the board.

A biography of each director of the company is set out on page 32.

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

The table on page 124 shows a list of each director's board committee memberships, the number of meetings of the board and its committees held during the year, and the number of those meetings attended by each director.

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

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

The board has determined that directors will hold office for an initial term of no longer than three years following their first appointment. Directors may offer themselves for re-election by shareholders at the end of each three-year term. If the director is appointed by the board between annual meetings, the three years applies from the date they are appointed at the meeting next following that interim appointment. The board charter records these requirements, which are subject to any limitations imposed by shareholders in a general meeting, and the requirements of the constitution relating to the retirement of directors by rotation. The board nomination policy can be found on the Company Website.

The board has established the nominations committee to focus on the selection of new directors, the induction of directors and to develop a succession plan for board members. The committee has a formal charter which can be found on the Company Website. The committee is required to comprise a minimum of two independent non-executive directors and the chair is required to be an independent director. The current members are Keith Turner (chair), Richard Didsbury, Lloyd Morrison and Joan Withers. Each member, other than Lloyd Morrison, is independent. The committee members' qualifications are set out on page 122 and attendance at meetings on page 124.

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

- each director participating with the chair in a formal performance evaluation;
- each director discussing with the chair that director's contribution to the proceedings of the board and the performance of the board and its committees generally; and
- the chair's own contribution being discussed with the rest of the board.

Performance reviews were completed for all directors in the 2011 financial year in accordance with the above procedure. In addition, a 360 degree review process of the performance of the whole of the board was conducted during the year. The process was facilitated by an independent service provider.

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

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

The general manager corporate affairs is the corporate secretary. He is responsible and accountable to the board for:

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

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

## Principle 3: Promote ethical and responsible decision-making

The company has always required the highest standards of honesty and integrity from its directors and employees. This commitment is reflected in the company's ethics policy and code of conduct, which can be found on the Company Website. The ethics policy and code of conduct recognises the company's legal and other obligations to all legitimate stakeholders. The ethics policy and code of conduct applies equally to directors and employees of the company.

The ethics policy and code of conduct deals with the company's:

- responsibilities to shareholders including protection of confidential information, restrictions on insider trading, rules for making of public statements on behalf of the company, accounting practices and cooperation with auditors;
- responsibilities to customers and suppliers of the company, and other persons using the Auckland Airport including rules regarding unacceptable payments and inducements, treatment of third parties' non-discriminatory treatment and tendering obligations; and
- responsibilities to the community including compliance with statutory and regulatory obligations, use of assets and resources and conflicts of interest;

and sets out procedures to be followed for reporting any concerns regarding breaches of the policy and code of conduct and for annual review of their content by the board.

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

- the period from the close of trading on 30 June of each year until the day following the announcement to the NZX of the preliminary final statement or full year results; and
- the period from the close of trading on 31 December of each year until the day following the announcement to the NZX of the half-year results.

During the year, the company has adopted a diversity policy in support of the company's focus on providing a framework for an inclusive, equitable and commercially successful approach to encouraging diversity within the business. The company has reviewed extensive literature on the effectiveness of target or quota based diversity objectives and has elected to instead focus on adopting a broad approach to diversity which focuses on a company-wide commitment to increasing diversity within the workforce.

The company's procedure for reporting and dealing with any concerns in respect of the conduct of its directors, employees and contractors fully complies with the requirements of the Protected Disclosures Act 2001.

## Principle 4: Safeguard integrity in financial reporting

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

- the company's financial reporting processes, system of internal control and the audit process; and
- the company's processes for identifying and managing risk, and for monitoring compliance by the company with the law and its own policies.

The committee must have a minimum of three members, all of whom must be non-executive directors, and the majority must be independent directors. The committee is chaired by an independent chair, who is not chair of the board. The current members are James Miller (chair), John Brabazon, Richard Didsbury and Joan Withers, all of whom are independent non-executive directors. Their qualifications are set out on page 122 and attendance at meetings on page 124.

# Corporate governance (continued)

For the year ended 30 June 2011

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

The audit and risk committee has adopted a policy in respect of the independence of the external auditor. This policy can be found on the Company Website. This policy places limitations on the extent of non-audit work which can be carried out by the external auditor, and requires the regular rotation of the partner of the external auditor responsible for the audit of the company every five years.

| Name | Status | Board | | | | | Audit and risk | | | Remuneration | | | Nominations | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Member | No. of meetings | No. of meetings attended | No. of ad hoc meetings[1] | No. of ad hoc meetings attended | Member | No. of meetings | No. of meetings attended | Member | No. of meetings | No. of meetings attended | Member | No. of meetings | No. of meetings attended |
| Joan Withers | Independent Non-executive | ✔ | 11 | 11 | 2 | 2 | ✔ | 6 | 6 | ✔ | 4 | 4 | ✔ | - | - |
| Keith Turner | Independent Non-executive | ✔ | 11 | 11 | 3 | 2 | | | | ✔ | 4 | 4 | ✔ | - | - |
| John Brabazon | Independent Non-executive | ✔ | 11 | 11 | 2 | 2 | ✔ | 6 | 6 | | | | | | |
| Richard Didsbury | Independent Non-executive | ✔ | 11 | 1 | 3 | 3 | ✔ | 6 | 6 | | | | ✔ | - | - |
| Brett Godfrey[2] | Independent Non-executive | ✔ | 5 | 5 | 2 | 1 | | | | ✔ | 4 | 2 | | | |
| Henry van der Heyden | Independent Non-executive | ✔ | 11 | 9 | 2 | 1 | | | | ✔ | 4 | 4 | | | |
| James Miller | Independent Non-executive | ✔ | 11 | 11 | 3 | 3 | ✔ | 6 | 6 | | | | | | |
| Lloyd Morrison | Not independent Non-executive | ✔ | 11 | 8 | 2 | 0 | | | | ✔ | 4 | 4 | ✔ | - | - |
| Anthony Frankham[3] | Independent Non-executive | ✔ | 5 | 5 | 1 | 1 | ✔ | 3 | 3 | ✔ | 2 | 2 | ✔ | - | - |

1 Includes unscheduled board meetings and one meeting of ad hoc committees of the board established for the purposes of asset revaluation.
2 Brett Godfrey was elected to the board on 28 October 2010 on the basis that he would commence attending meetings from February 2011.
3 Anthony Frankham retired as a director on 28 October 2010.

## Principle 5: Make timely and balanced disclosure

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

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

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

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

## Principle 6: Respect the rights of shareholders

The company's communications framework and strategy is designed to ensure that communications with shareholders and all other stakeholders are managed efficiently. This strategy forms part of the disclosure and communications policy referred to under Principle 5 which can be found on the Company Website. It is the company's policy that external communications will be accurate, verifiable, consistent and transparent.

The chief executive and chief financial officer are appointed as the points of contact for analysts. The chair, chief financial officer, chief executive, company secretary and general manager corporate affairs are appointed as the points of contact for media.

The company currently keeps shareholders informed through:

- the annual report;
- the interim report;
- the annual meeting of shareholders;
- information provided to analysts during regular briefings;
- disclosure to the NZX and ASX in accordance with the company's disclosure and communications policy; and
- the corporate section of the Company Website.

The board considers the annual report to be an essential opportunity for communicating with shareholders. The company publishes its annual and interim reports electronically on the Company Website. Investors may also request a hard copy of the annual report by contacting the company's share registrar, Link Market Services Limited. Contact details for the registrar appear at the end of this report.

The company's annual meetings are well-attended by shareholders, and the company considers the meetings to be a valuable element of its communications programme. The chair provides an opportunity for shareholders to raise questions for their board, and to make comments about the company's operations and performance. The chair may ask the chief executive and any relevant manager of the company to assist in answering questions if required. The company's external auditor also attends the annual meeting, and is available to answer questions relating to the conduct of the external audit and the preparation and content of the auditor's report.

## Principle 7: Recognise and manage risks

Risk management is an integral part of Auckland Airport's business. The company has systems to identify, and minimise, the impact of financial and operational risk on its business. These systems include a process to enable:

- significant risk identification;
- risk impact quantification;
- risk mitigation strategy development; and
- compliance monitoring to ensure the ongoing integrity of the risk management process.

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

- the company's financial statements present a true and fair view, in all material respects, of the company's financial condition, and operational results are in accordance with relevant accounting standards;
- the statement given in the preceding paragraph is founded on a secure system of risk management and internal compliance and control which implements the policies adopted by the board; and
- the company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

The board has received assurance from the chief executive and chief financial officer that this confirmation is founded on a sound system of risk management and internal control which is operating effectively in all respects relating to financial reporting.

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

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

# Corporate governance (continued)

For the year ended 30 June 2011

The audit and risk committee's charter and the company's risk management policy can be found on the Company Website.

The company continues to enhance and develop its risk management process with a view to continuous improvement. During the year, significant activities undertaken in this regard include:

- an all-day crisis simulation was run involving the board, management and all key airport stakeholders;
- crisis management processes and plans have been refined and developed following the conduct of the crisis scenario simulation;
- a workshop has been conducted by the board and management to consider and define the board's approach to risk in the conduct of the business; and
- a greenfields review of the company's insurance arrangements has been undertaken by its insurance broker.

The company has established a formal internal audit function. This function is performed by Ernst & Young. Ernst & Young reports on its activities to the audit and risk committee two times in each year.

The company's equity and debt registers are audited annually by an independent auditor, Grant Thornton. The audit has been conducted this year with no issues being raised by Grant Thornton.

The company's business is also subject to regular external audit at the operational level by New Zealand's Civil Aviation Authority. The company also has ISO 9001:2000 certification. This is subject to audit.

## Principle 8: Remunerate fairly and responsibly

The board's remuneration committee has a formal charter and all of its members are non-executive directors. Remuneration committee members are Keith Turner (chair), Brett Godfrey, Lloyd Morrison, Sir Henry van der Heyden and Joan Withers. Each member, other than Lloyd Morrison, is independent. The committee's charter can be found on the Company Website. The committee members' attendance at meetings is set out on page 124.

The board has an objective, in this report, to be transparent about its remuneration policy and practice to demonstrate that all those involved with running the company are motivated to create sustainable shareholder wealth and receive appropriate reward when they do.

### Directors

Non-executive directors receive fees determined by the board on the recommendation of the remuneration committee. Those fees must be within the aggregate amount per annum approved by shareholders. Shareholders approved a total pool of $1,290,000 at the company's annual meeting on 28 October 2010, an increase of $140,000 from the previously approved pool. Of this increase, half was applied during the year and the balance will be applied with effect from 27 October 2011. The directors have also decided that they each will use 7.5 percent of the fees actually payable to them (increasing to 15 percent of the fees actually payable to them from 27 October 2011) to acquire shares in the company. In order to do this, the directors have entered into a share purchase plan agreement and appointed First NZ Capital to be the manager of the plan. The manager of the plan acquires the shares required for the purposes of the plan on behalf of the directors over the 20 business days commencing two days after the company's half year and full year results announcements. The first such acquisition was made in respect of the directors' fees for the year during the period following the announcement of the 2011 half year announcement. Directors will remain in the plan until one year after retirement from the board.

Each year, the remuneration committee reviews the level of directors' remuneration. The committee considers the skills, performance, experience and level of responsibility of directors when undertaking the review, and is authorised to obtain independent advice on market conditions. After taking external advice, the committee makes recommendations on the appropriate levels of remuneration to the board for submission to shareholders for approval.

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

Remuneration of directors

| Name | Director's fee | Accrued retirement allowance |
|---|---|---|
| Joan Withers | $174,493.15 | $120,000.00 |
| Keith Turner | $134,335.62 | - |
| John Brabazon[1] | $116,997.25 | - |
| Richard Didsbury | $113,963.01 | - |
| Brett Godfrey | $51,750.00 | - |
| Henry van der Heyden | $101,930.83 | - |
| James Miller[1] | $127,972.60 | - |
| Lloyd Morrison | $106,440.07 | - |
| Anthony Frankham[2] | $208,808.22 | |

1 John Brabazon's and James Miller's remuneration includes ad hoc committee fees of $7,543.48 and $7,500.00 respectively. These relate to additional attendances on behalf of the board in relation to due diligence for the company's US private placement.
2 Anthony Frankham retired as a director on 28 October 2010. As a consequence, Mr Frankham's remuneration includes a retirement allowance of $150,000.00.

### Management

The company's remuneration policy is to ensure that:

- staff are fairly and equitably remunerated relative to comparable positions within the Australasian market;
- staff are strongly motivated to achieve stretch performance that will deliver shareholder value; and
- the company is able to attract and retain high-performing employees who will ensure the achievement of company objectives.

The annual remuneration review process requires, what we call, 'one over one' approval. That is, the approval of the board of directors is required for the implementation of changes to the chief executive's remuneration, as recommended by the remuneration committee. Likewise, the approval of the remuneration committee of the board is required for the implementation of recommendations from the chief executive in relation to the remuneration of the leadership team and the aggregate increment applying to all other employees.

The recruitment process, and subsequently the remuneration review process, involves the consideration of market information obtained from specialist advisors and, in the case of employees employed under collective agreements, negotiations with unions.

All employees of the company participate every six months in a detailed performance development system (PDS), administered by the human resources team. The outcomes of the PDS are integrated into the annual remuneration review to ensure that the company's remuneration policy is delivered on. The PDS is also a very useful tool in identifying necessary staff development and training and, very importantly, in succession planning.

The company's senior management team's total remuneration is made up of a mix of:

- base salary;
- short-term 'at risk' performance incentives; and
- in relation to the Leadership Team, long-term performance incentives which are directly aligned to long-term shareholder value creation.

The chief executive's salary package for the year is as follows:

| Base salary | Short-term incentive | Long-term incentive | Total |
|---|---|---|---|
| $936,257 | $540,000 | - | $1,476,257 |

The levels of remuneration, and the mix between the base salary and short and long-term incentives, vary at different levels of management. The company benchmarks the leadership team's remuneration against independently derived market data. A selection of comparable companies is chosen to ensure market relativities for comparable positions is observed. The comparison set includes a mixture of infrastructure, property, retail and, where appropriate, Australasian airports are referenced to offer viable comparators. The remuneration committee's policy in relation to the remuneration of the leadership team is to target the average of the leadership team's base salary in the upper quartile of the relevant pay scales to ensure the attraction and retention of top talent to these roles. This does vary on performance and experience in the role – high performance with very strong experience would likely be above the average while new appointments would likely be below.

The short-term component of the performance incentive is an at risk component in addition to base salary and is payable in cash. The chief executive's risk element under the short-term performance incentive is equivalent to 50 percent of base salary and the leadership team's is typically equivalent to 30 percent of base salary. The remainder of the senior managers participating in the short-term incentive typically have an amount of 20 percent of their base salary at risk on the same basis. The total number of staff included in the short-term incentive scheme is 35.

Half of the at risk element is based on the company's achievement of certain annual financial targets, such as EBITDA, set by the board. The other half is based on the relevant senior manager's achievement of certain key performance indicators relevant to his or her role which are set annually by the chief executive and advised to the board. These are very much at risk targets and include stretch targets as well as baseline objectives with clear measures in place to determine achievement or non-achievement in any one year. For example, failure to achieve 90 percent of the financial target results in no payment of half of the at risk pay.

Long-term performance incentives include five historical types of long-term cash-based (phantom) incentive plans. The plans are designed to assist in attracting and retaining key executives, and ensuring strong alignment of executive and company and shareholder interests. In a company with long-term investment horizons, long lived assets and a high capital intensity such as Auckland Airport, it is essential that the company's key executives are incentivised to focus on long-term value creation rather than just the next year's results. The leadership team participates in the long-term incentive plans and this component of their remuneration typically represents around 30 percent of base pay. Financial details of the five types of plans, including the number of phantom shares or options on issue and the current exercise price (if the phantom options were exercisable), are set out at note 26 of the financial statements.

The phantom plans are all similar and involve payment of a cash sum on the successful satisfaction of the terms of the plans. None includes the issue of shares. The first and second of the current phantom plans were used in 2005, 2006, 2007 and 2008.

The first component involves the 'deemed' allocation of shares at the prevailing market value at the time of issue. The only remaining allocation relates to 2008 and only five remaining employees participate in this phantom share plan. The value of the shares is paid to the executive after three years' qualifying service at the market rate prevailing at the time, less the appropriate tax. Ordinary dividends are not taken into account.

The second component involves the deemed allocation of phantom options at prevailing market rates. The deemed exercise price is increased by the company's cost of equity each year, less dividends paid. Any benefit above the deemed exercise price is payable in cash, less tax, three to six years after allocation. Only three current employees and three former employees participate in these phantom option plans.

The following phantom option plans are those applying to the chief executive and the current members of the leadership team. The third cash-based incentive plan, again a phantom option scheme, was utilised in 2009 and 2010 and will be utilised in 2011. It involves the deemed allocation of options at prevailing market rates. The deemed exercise hurdle is increased by the company's cost of equity each year plus one percent. This stretch performance hurdle means that shareholders will already have received a fair return before executives begin to participate in the success of the company. It also sets a strong motivation for outperformance. If the exercise hurdle is exceeded and continues to be exceeded at the time of exercise (between three to five years after allocation) any benefit over the volume weighted average price of a share on the NZX over the 20 business days preceding exercise, less the deemed price at allocation, is paid to the employee, less tax.

# Corporate governance (continued)

For the year ended 30 June 2011

The fourth phantom incentive plan relates to the chief executive, Simon Moutter. Mr Moutter was granted three million phantom options upon the commencement of his employment. Mr Moutter is entitled to exercise up to one million phantom options at any time after the third anniversary of the date of his employment, up to a further one million options at any time following the fourth anniversary of the date of his employment and up to a further one million options at any time after the fifth anniversary of the date of his employment. The options are exercisable for a period of two years from the date they become exercisable, at which time any option which has not been exercised will automatically lapse. In addition, Mr Moutter may not give an exercise notice in respect of any option unless the total shareholder return is equal to or greater than a compound annual pre-tax rate of 12 percent per annum.

The fifth phantom incentive plan also relates to the chief executive. It has been established for Mr Moutter this year on substantially the same terms as the fourth plan, the only material difference being that it provides for a further two million options. A total of 666,666 of the two million options become exercisable on 25 August 2013; a further 666,666 are exercisable on 25 August 2014; and the final 666,668 are exercisable on 25 August 2015. Mr Moutter does not participate in any of the other four cash-based plans discussed above.

The number of phantom options issued to participants under the plans is determined by applying the company's independently calculated cost of equity and an independent valuation of the option using Black-Scholes valuation methodologies to the percentage of the relevant participant's base salary which is the subject of this incentive. This is a process which is carried out annually.

This year the board has also established a retention scheme for Mr Moutter which is designed to ensure he remains positively engaged in the company's employment through to at least 31 August 2013. The retention scheme entails the payment of $750,000 on 31 August 2013 to Mr Moutter if he remains in the company's employment on that date and certain challenging performance objectives, focused on long-term shareholder value and set by the board, have been satisfied by Mr Moutter. These performance criteria relate to EBITDA and EV/EBITDA achieved over the period.

A statement of the company's policy on prohibiting transactions in associated products which limit the risk of participating in unvested entitlements under any equity-based remuneration scheme forms part of the company's trading policy which can be found on the Company's Website.

The company has also run an employee share plan. Pursuant to this plan 285,600 shares were issued to 189 eligible employees on 21 May 2009. Payments for shares by participating staff are made by way of salary or wage deduction over a period of three years commencing from the issue date. A full description of the employee share plan is set out in note 26 of the notes to the financial statements.

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

Total remuneration packages for all employees in excess of $100,000, including the five most highly paid employees of the company, are disclosed by band on page 131 of this report.

### Compliance

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

### Reporting entity

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

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

### Stock exchange listings

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

The company has not conducted any on-market buy-back. The company is not subject to chapters 6, 6A, 6B and 6C of the Australian Corporations Act dealing with the acquisition of shares (i.e. substantial holdings and takeovers).

### Waivers granted by the NZX

During the 12 months to 29 July 2011, the company was not issued with any waivers of NZX Listing Rules. For the same period, the company relied on the following waivers:

- Waiver of Listing Rule 11.1.1 by NZX granted on 21 October 2009. This rule restricts an issuer of securities from imposing any restriction on the right of a holder of a quoted security to transfer that security, or any restriction upon registration of a properly completed transfer of quoted securities. The waiver was issued to permit the company to include terms in the trust deed relating to the issue of unsecured, unsubordinated retail bonds that restrict transfers if they result in either the transferor holding less than $10,000 (if not zero) in principal amount in bonds or are of amounts that are not multiples of $1,000.
- Waiver of Listing Rule 7.11.1 granted on 17 February 2010. This rule requires that allotment of new securities must be made within five business days after the date on which applications for the securities close. This waiver was issued to enable shares issued under the company's dividend reinvestment plan to be issued on the same date as dividends are paid to shareholders not participating in the dividend reinvestment plan.

### Disciplinary action taken by the NZX or the ASX

Neither the NZX nor the ASX has taken any disciplinary action against the company during the financial year ending 30 June 2011.

### Regulatory environment

The company is regulated by, amongst other things, the Airport Authorities Act 1966 and the Civil Aviation Act 1990. The company is an 'airport company' for the purposes of the Airport Authorities Act 1966. The company has consultation and disclosure obligations under the Airport Authorities Act 1966.

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

### Auditor

Deloitte has continued to act as auditor of the company, and has undertaken the audit of the financial statements for the 30 June 2011 financial year.

### Indemnity and insurance

In accordance with section 162 of the Companies Act 1993 and the constitution of the company, the company has continued to indemnify and insure its directors and officers against liability to other parties (except to the company or a related party to the company) that may arise from their position as directors. The insurance does not cover liabilities arising from criminal actions.

### Entries recorded in the Interests Register

Except for disclosures made elsewhere in this annual report, there have been no entries in the Interests Register made during the year.

### Donations

In accordance with section 211(1)(h) of the Companies Act 1993, the company records that it donated a total of $105,600.00 to various charities during the year. The company's subsidiaries did not make any donations during the year.

### Earnings per share

Earnings in cents per ordinary share were 7.65 cents in 2011 compared with 2.30 cents in 2010 and 3.41 cents in 2009.

### Credit rating

As at 1 August 2011, the Standard & Poor's long-term debt rating for the company was A– Stable Outlook and the short-term debt rating was A2.

### Subsidiary company directors

Simon Moutter and Peter Alexander held office as directors of Auckland Airport Limited as at 30 June 2011.

Simon Moutter and Charles Spillane held office as directors of Auckland Airport Holdings Limited as at 30 June 2011.

Simon Robertson held office as a director of Auckland Airport Holdings (No. 2) Limited as at 30 June 2011.

### Annual meeting of shareholders

The company's annual meeting of shareholders will be held at the Genesis Theatre, TelstraClear Pacific Events Centre, 770–834 Great South Road, Manukau, on 27 October 2011 at 2pm.

# Corporate governance (continued)

For the year ended 30 June 2011

## Directors' holdings and disclosure of interests

Directors held interests in the following shares in the company as at 30 June 2011:

| | | |
|---|---|---|
| Joan Withers | Held personally | 2,901 |
| | Beneficially owned | 25,495 |
| Keith Turner | Held personally | 1,596 |
| John Brabazon | Held personally | 1,378 |
| Richard Didsbury | Held personally | 1,378 |
| | Held by associated persons | 24,542 |
| Brett Godfrey | Held personally | 805 |
| James Miller | Held personally | 15,148 |
| | Beneficially owned | 8,500 |
| | Held by associated persons | 531 |
| Lloyd Morrison | Beneficially owned | 1,378 |
| | Held by associated persons | 98,474,884 |
| Sir Henry van der Heyden | Held personally | 1,378 |

## Disclosure of interests by directors

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

**Joan Withers**
Chair, Mighty River Power Limited
Deputy chair, Television New Zealand Limited
Director, New Zealand Treasury Advisory Board
Trustee, The Tindall Foundation
Trustee, Louise Perkins Foundation
Trustee, Pure Advantage

**Keith Turner**
Director, Cellmet Limited
Chair, Fisher & Paykel Appliances Holdings Limited
Director, Keith Turner & Associates
Director, Pacific Simulators 2010 Limited
Director, Solar City Limited
Director, Spark Infrastructure Pty Limited
Director, Waitaki Windfarms limited

**John Brabazon**
Executive Director, Clavell Capital Limited
President, Kern River Oil Corporation
Director, Kaiwhata Forests Limited

**Richard Didsbury**
Director, Hobsonville Land Company Limited
Director, Kiwi Income Properties Limited

**Brett Godfrey**
Director, Westjet Airlines Limited
Director, Tourism Australia
Director, Green Cross Australia
Director, TransLink Transit Authority

**Henry van der Heyden**
Chair, Fonterra Co-operative Group Limited
Director, Independent Egg Producers Limited
Director, Elevation Capital Management Limited
Director, Northern Feed Mill Limited
Director, Manuka SA
Director, Pascaro Investments Limited
Member, Rabobank ANZ Food & Agribusiness Advisory Board
Member, NZ International Business Forum
Member & director Remuneration Committee, ZESPRI International

**James Miller**
Director, Vector Limited
Director, NZX Limited
Director, Financial Markets Authority
Director, Kingfish Limited
Director, Barramundi Limited
Director, Marlin Global Limited

**Lloyd Morrison**
Chair, HRL Morrison & Company Group Limited
Chair, Infratil Airports Europe Limited
Chair, Morrison & Company Infrastructure Management Limited
Director, Infratil Limited
Director, Infratil Infrastructure Property Limited
Director, TrustPower Limited

**Remuneration of employees**

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

| Amount of remuneration | Employees |
|---|---|
| $100,000 to $110,000 | 27 |
| $110,001 to $120,000 | 12 |
| $120,001 to $130,000 | 6 |
| $130,001 to $140,000 | 6 |
| $140,001 to $150,000 | 6 |
| $150,001 to $160,000 | 4 |
| $160,001 to $170,000 | 1 |
| $170,001 to $180,000 | 7 |
| $180,001 to $190,000 | 3 |
| $190,001 to $200,000 | 3 |
| $200,001 to $210,000 | 2 |
| $210,001 to $220,000 | 1 |
| $310,001 to $320,000 | 1 |
| $350,001 to $360,000 | 1 |
| $370,001 to $380,000 | 2 |
| $420,001 to $430,000 | 1 |
| $450,001 to $460,000 | 1 |
| $690,001 to $700,000* | 1 |
| $1,400,001 to $1,410,000 | 1 |

Remuneration includes salary, performance bonuses, employer's contributions to superannuation, health and insurance plans, motor vehicle and other sundry benefits received in their capacity as employees and, in relation to the entry marked with an 'asterisk' includes termination payments.

The company has long-term incentives in place for senior executives for 2003, 2004, 2005, 2006, 2007, 2008 and 2009 (refer to note 26 in the financial statements); at balance date, the value of these incentives was $2.6 million.

# Shareholder information

For the year ended 30 June 2011

### Distribution of ordinary shares and shareholders

as at 1 August 2011

| Size of holding | Number of shareholders | % | Number of shares | % |
|---|---|---|---|---|
| 1 – 1,000 | 3,370 | 6.64 | 1,912,798 | 0.14 |
| 1,001 – 5,000 | 32,904 | 64.87 | 69,929,920 | 5.29 |
| 5,001 – 10,000 | 6,571 | 12.95 | 46,814,295 | 3.54 |
| 10,001 – 100,000 | 7,573 | 14.93 | 175,844,620 | 13.30 |
| 100,001 and over | 307 | 0.61 | 1,028,062,856 | 77.73 |
| Total | 50,725 | 100.00 | 1,322,564,489 | 100.00 |

### Substantial security holders

Pursuant to section 26 of the Securities Amendment Act 1988, the following persons had given notice as at 1 August 2011 that they were substantial security holders in the company and held a 'relevant interest' in the number of ordinary shares shown below:

| Substantial security holder | Number of shares in which 'relevant interest' is held | Date of notice |
|---|---|---|
| Auckland Council Investments Limited (through its wholly-owned subsidiaries, Auckland Council Investments (AIAL) Limited and Manukau City Investments Limited) | 295,921,014 | 04.11.10 |
| Auckland Council Investments (AIAL) Limited | 165,501,630 | 04.11.10 |
| New Zealand Superannuation Fund Nominees Limited | 123,944,305 | 28.01.10 |
| Manukau City Investments Limited | 116,712,656 | 21.09.05 |
| HRL Morrison & Company Group Limited | 87,275,444 | 10.11.09 |

The total number of voting securities on issue as at 1 August 2011 was 1,322,564,489.

## Twenty largest shareholders

As at 1 August 2011

| Shareholder | Number of shares | % of capital |
|---|---|---|
| New Zealand Central Securities Depository Limited[1] | 529,821,197 | 40.06 |
| Auckland Council Investments (AIAL) Limited | 165,501,630 | 12.51 |
| Manukau City Investments Limited | 130,419,384 | 9.86 |
| Custodial Services Limited | 21,151,657 | 1.60 |
| FNZ Custodians Limited | 11,424,454 | 0.86 |
| Private Nominees Limited | 9,501,754 | 0.72 |
| J P Morgan Nominees Australia Limited | 8,295,453 | 0.63 |
| Custodial Services Limited | 8,278,371 | 0.63 |
| National Nominees Limited | 7,365,303 | 0.56 |
| Custodial Services Limited | 6,802,995 | 0.51 |
| FNZ Custodians Limited | 6,787,287 | 0.51 |
| Investment Custodial Services Limited | 5,683,470 | 0.43 |
| RBC Dexia Investor Services Australia Nominees Pty Limited | 5,585,729 | 0.42 |
| New Zealand Depository Nominee Limited | 5,054,717 | 0.38 |
| Custodial Services Limited | 5,032,659 | 0.38 |
| Forsyth Barr Custodians Limited | 4,889,286 | 0.37 |
| Masfen Securities Limited | 4,437,919 | 0.34 |
| Custodial Services Limited | 4,224,047 | 0.32 |
| Citicorp Nominees Pty Limited | 3,532,355 | 0.27 |
| Forsyth Barr Custodians Limited | 2,949,216 | 0.22 |

[1] New Zealand Central Securities Depository Limited (NZCSD) is a depository system which allows electronic trading of securities to members. As at 1 August 2011, the ten largest shareholdings in the company held through NZCSD were as follows:

| Shareholder | Number of shares | % of capital |
|---|---|---|
| NZ Superannuation Fund Nominees Limited | 134,243,450 | 25.34 |
| HSBC Nominees (New Zealand) Limited | 84,656,610 | 15.98 |
| National Nominees New Zealand Limited | 80,417,573 | 15.18 |
| HSBC Nominees (New Zealand) Limited | 41,992,822 | 7.93 |
| Accident Compensation Corporation | 38,948,693 | 7.35 |
| Citibank Nominees (New Zealand) Limited | 31,378,788 | 5.92 |
| TEA Custodians Limited | 21,497,480 | 4.06 |
| AMP Investments Strategic Equity Growth Fund | 14,169,454 | 2.67 |
| Premier Nominees Limited | 13,745,907 | 2.59 |
| NZGT Nominees Limited | 10,395,804 | 1.96 |

# Shareholder information

For the year ended 30 June 2011

## Investor information

### Company publications

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

### Financial calendar

| | Half year | Year |
|---|---|---|
| Results announced | February | August |
| Reports published | March | September |
| Dividends paid | March | October |
| Annual meeting | - | October |
| Disclosure financial statements | - | November* |

*The first disclosure under the new regulatory reporting regime is May 2012, with reports due in November each year for the financial year 2012 and subsequent years.

Please note that the annual meeting will be held at 2pm on 27 October 2011 at the TelstraClear Pacific Events Centre.

### Voting rights

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

### Enquiries

Shareholders with enquiries about transactions, changes of address or dividend payments should contact Link Market Services Limited on +64 9 375 5998. Other questions should be directed to the company's corporate secretary at the registered office.

### Stock exchange

The company's ordinary shares trade on the NZSX and the ASX. The minimum marketable parcel on the NZX is 100 shares and in Australia a 'marketable parcel' is a parcel of securities of more than AU$500. As at 1 August 2011, 48 shareholders held fewer securities than a marketable parcel under the Listing Rules of the ASX.

### Dividends

Shareholders may elect to have their dividends direct credited to their bank accounts. The company also offers shareholders the opportunity to participate in a dividend reinvestment plan. Details of this plan are available in the 'Investors' section of the Company Website.

### Limitations on the acquisition of the company's securities

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

(a) Securities in the company are, in general, freely transferable. The only significant restrictions or limitations in relation to the acquisition of securities are those imposed by New Zealand law relating to takeovers, overseas investment and competition.

(b) The Takeovers Code creates a general rule under which the acquisition of more than 20 percent of the voting rights in the company or the increase of an existing holding of 20 percent or more of the voting rights in the company can occur only in certain permitted ways. These include a full takeover offer in accordance with the Takeovers Code, a partial takeover in accordance with the Takeovers Code, an acquisition approved by an ordinary resolution, an allotment approved by an ordinary resolution, a creeping acquisition (in certain circumstances) or compulsory acquisition if a shareholder holds 90 percent or more of the shares in the company.

(c) The Overseas Investment Act 2005 and Overseas Investment Regulations 2005 regulate certain investments in New Zealand by overseas persons. In general terms, the consent of the Overseas Investment Office is likely to be required where an 'overseas person' acquires shares or an interest in shares in the company that amount to more than 25 percent of the shares issued by the company or, if the overseas person already holds 25 percent or more, the acquisition increases that holding.

(d) The Commerce Act 1986 is likely to prevent a person from acquiring shares in the company if the acquisition would have, or would be likely to have, the effect of substantially lessening competition in a market.

## Share registrars

**New Zealand:**
Link Market Services Limited
Level 16, Brookfields House
19 Victoria Street West
Auckland 1010

PO Box 91976
Auckland 1142

**Australia:**
Link Market Services Limited
Level 12
680 George Street
Sydney
NSW 2000

Locked Bag A14
Sydney South
NSW 1235

# Corporate directory

**Directors**
Joan Withers, chair
Keith Turner, deputy chair
John Brabazon
Richard Didsbury
Brett Godfrey
James Miller
Lloyd Morrison
Sir Henry van der Heyden

**Senior management**
Simon Moutter, chief executive
Peter Alexander, general manager property
Adrian Littlewood, general manager retail and commercial
Judy Nicholl, general manager aeronautical operations
Mary-Anne Powell, executive assistant and office manager
Simon Robertson, chief financial officer
Charles Spillane, general manager corporate affairs
Glenn Wedlock, general manager aeronautical commercial

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

Telephone: +64 9 275 0789
0800 Airport (0800 247 7678)
Facsimile: +64 9 275 4927

Email: corporate@aucklandairport.co.nz
Website: www.aucklandairport.co.nz

**Registered office Australia**
c/o KPMG
147 Collins Street
Melbourne
Victoria 3000
Australia

Telephone: +61 3 9288 5555
Facsimile: +61 3 9288 6666

Website: www.kpmg.com.au

**Mailing address**
Auckland International Airport Limited
PO Box 73020
Auckland Airport
Manukau 2150
New Zealand

**Corporate secretary**
Charles Spillane

**Solicitors**
Russell McVeagh

**Auditor**
Deloitte

**Principal bankers**
Bank of New Zealand
Commonwealth Bank of Australia
The Bank of Tokyo-Mitsubishi UFJ Limited
ANZ National Bank Limited
Westpac Banking Corporation

This Annual Report is dated 29 September 2011 and is signed on behalf of the board by:

**Joan Withers**
Chair of the board

**Keith Turner**
Director