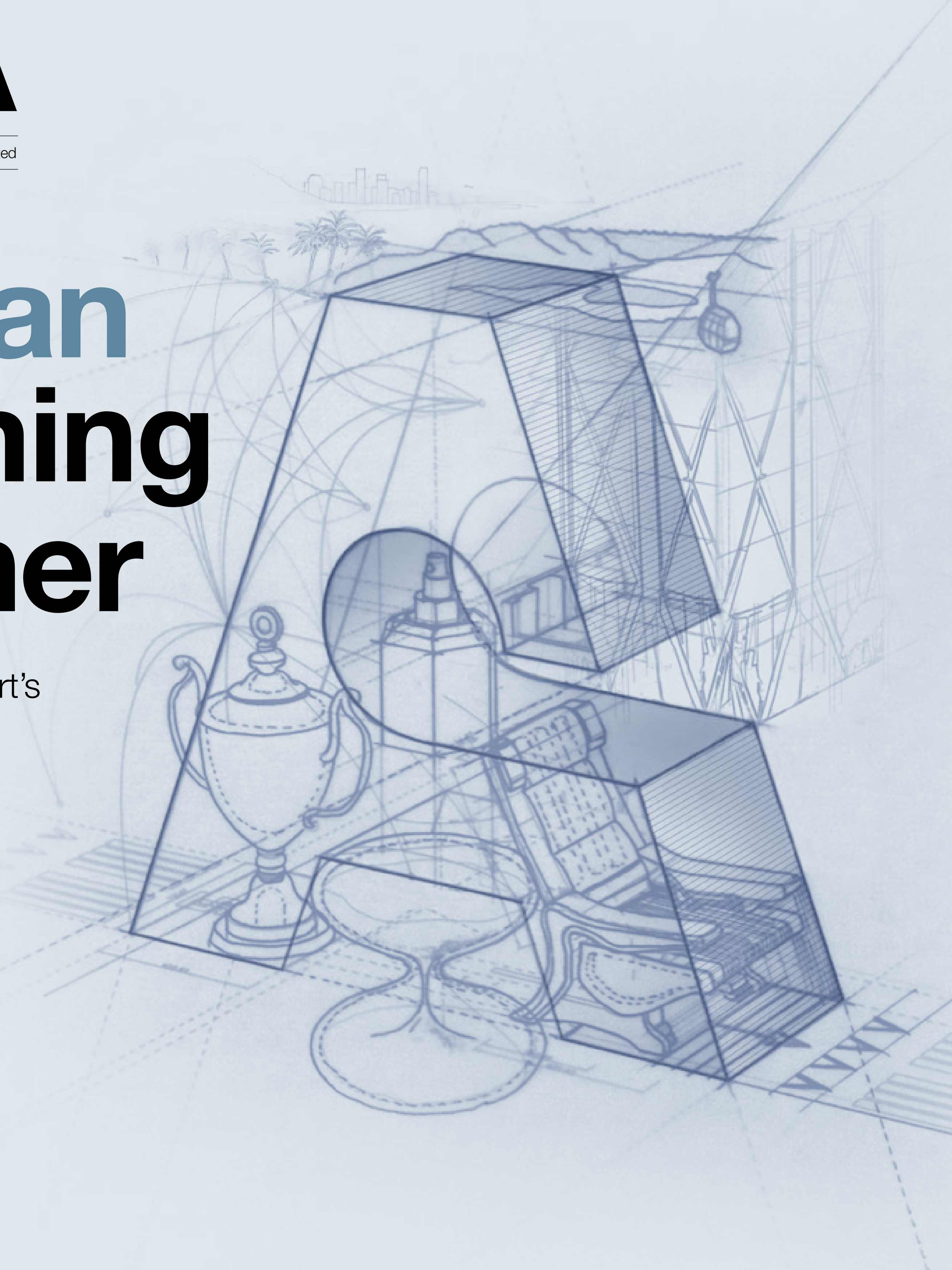
Airport Review 2010 | Auckland International Airport Limited

Our plan is coming together

Following Auckland Airport's blueprint for success



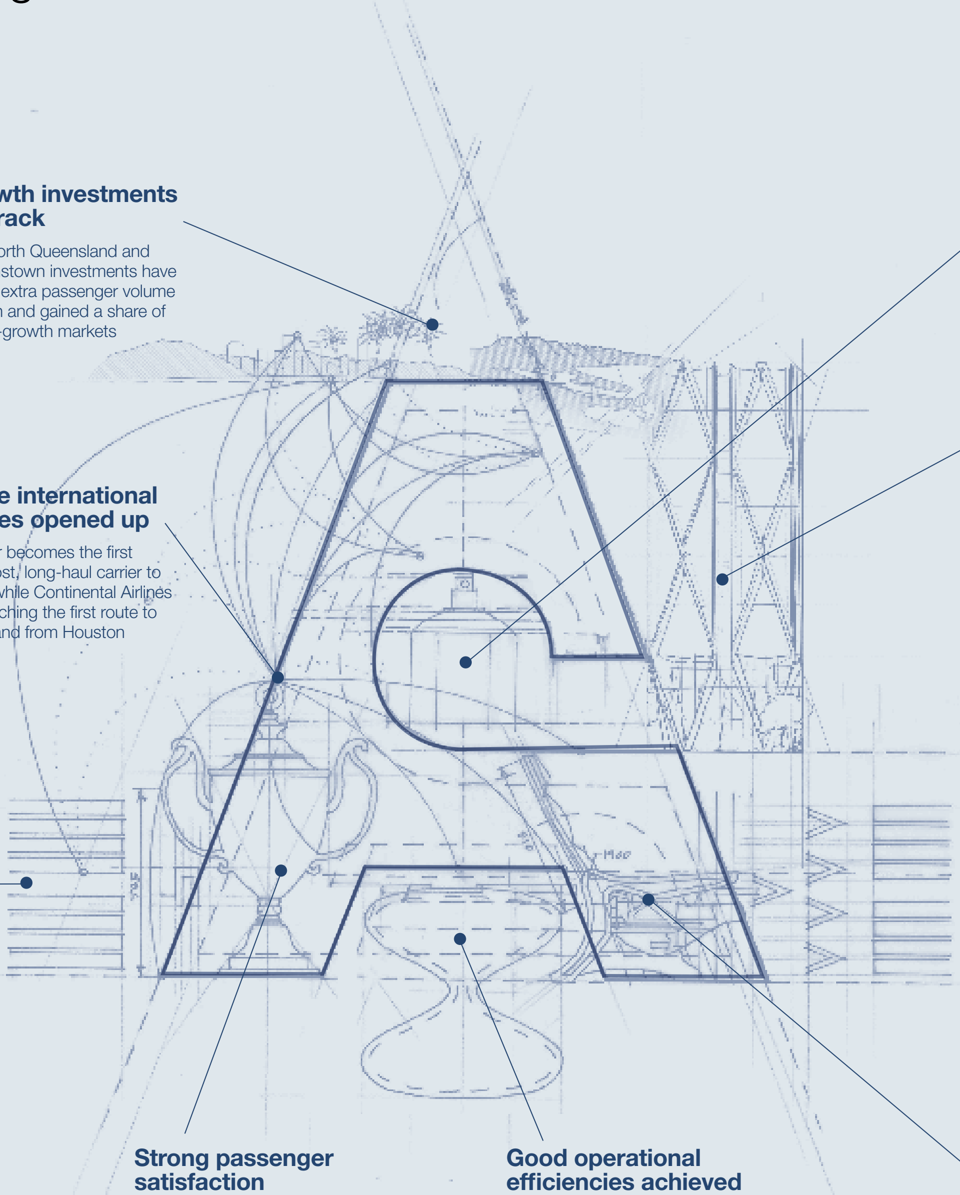
Catching the tigers by their tails
The importance of growth to New Zealand

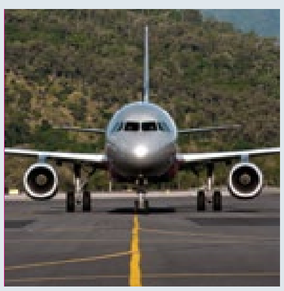
Applying Six Sigma
LEAN and long, from all angles

Increased passenger numbers
Accelerating into 2011

and every action is a step towards success

With all the parts working in unison, our plan is coming together like clockwork





Growth investments on track

The North Queensland and Queenstown investments have driven extra passenger volume growth and gained a share of higher-growth markets

More international routes opened up

Jetstar becomes the first low-cost, long-haul carrier to Asia, while Continental Airlines is launching the first route to Auckland from Houston

Significant capex reduction and deferral

The second runway has been put on hold and new plans for road access developed

Strong passenger satisfaction

Voted the ninth-best airport in the world in Skytrax Awards – second year in a row in top 10

Good operational efficiencies achieved

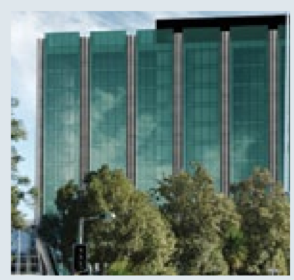
Including a best-ever health and safety performance and more efficient processing using LEAN Six Sigma

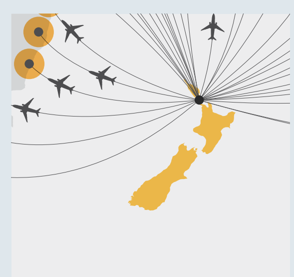
Retail development on target

The first floor of the international terminal redevelopment is now in it's final phase

Property development has been accelerated

Land use has been clarified and there is now over $115.0 million worth of property development committed or underway





Successful air-service development

More than 850,000 additional seats have been announced across a wide range of carriers out of Auckland, and more than 800,000 seats added out of Cairns

Contents

—— Year ended 2010

Airport Review 2010

Welcome to the annual review of 2010 for Auckland Airport. Over the last couple of years we have put a huge amount of time and effort into developing and implementing a comprehensive strategy that would not only see Auckland Airport ride out the turbulence of the economic downturn well, but would put us into the best possible position to make the most of the inevitable recovery – and, in turn, benefit shareholders, Auckland, and New Zealand tourism and trade. We're really pleased with how the plan is coming together.

Simon Moutter
Editor in chief
(CEO)

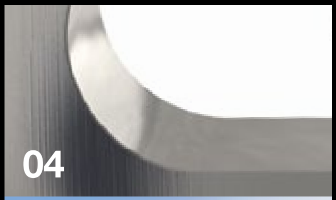
Increase in international travel, with more routes now open to New Zealanders than ever before

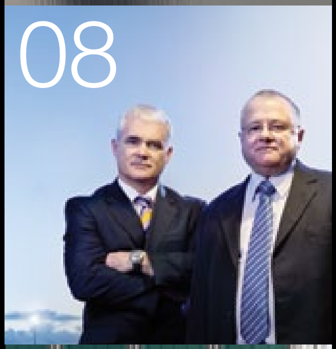
Reduced customs wait times, with the new trans-Tasman SmartGates

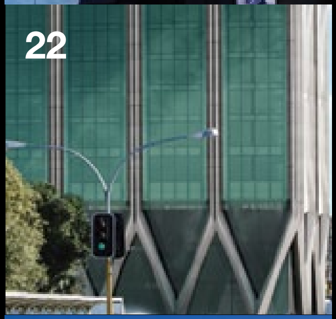
A

B

C







Flight path for growth

Our growth strategy has continued to be fine-tuned over the year but, at its heart, it remains all about accelerating business growth, in particular international passenger numbers, at Auckland Airport, and about sustainably developing travel, trade and tourism for the markets we serve.

1 Building organisational capability

- Aligned staff performance metrics to growth strategy and earnings improvement
- Deployed new technologies and LEAN efficiency processes to increase operational efficiencies and defer capital expenditure
- Leadership development programme introduced to lift execution rate
- Completed reallocation of business resources and structural changes

2 Win-win

- Positive and sensible regulatory environment foreshadowed in Commerce Commission draft determination
- Northern runway construction deferred for the medium term without inhibiting growth of capacity
- New roading plan developed which avoids spending an estimated $150.0 million in uneconomic roading construction
- Convincingly won the Craigie Trust claim to remove impediment to use of commercial land holdings

3 Fighting fit

- Significantly improved the arrivals experience by applying various LEAN methodologies
- Successfully raised equity to partially finance North Queensland Airports Limited investment, with excellent shareholder feedback
- Significantly reduced number of suppliers to improve operating efficiency and reduce cost
- Tertiary Accident Compensation Corporation Workplace Safety Management Practices gained

4 Maximising our core

- Progressing the first floor retail development, on time, scope and budget
- Won major new air-services, with over 850,000 new seats announced
- Increased our marketing efforts and product mix to grow revenues
- Heavily influenced transport improvements to greatly improve access to the airport
- Auckland Airport voted the ninth-best airport in the world in the 2010 Skytrax Awards
- Developed online carparking booking system

5 Short-haul opportunities

- Comprehensively achieved the outcomes sought under Plan Changes 13 and 14 for north airport development
- Defined the new property strategy and land-use plan and rolled it out to market
- Kick-started property development – now over $115.0 million of new projects committed or under construction

6 Long-haul opportunities

- North Queensland Airports Limited investment bedded down, funded by equity raise and metrics recently published to market
- Air-services capacity commitments made in excess of the acquisition business case for FY2011 achieved
- Strategic alliance formed with Queenstown Airport to boost tourism volumes
- Exposure gained to higher-growth markets through our two investments

Pros and cons

Here are the ups and downs (but mainly ups) of the 2010 financial year.

Strong customer satisfaction – **top 10 in world** for second year running in Skytrax Awards

Growth economies **especially Asia** are becoming more important

Group Operating EBITDAFI **down 1.1%** to $276.3 million

Masterplan clarified and regulatory process nearing completion

2 investments into North Queensland and Queenstown

Domestic passenger movements **up 7.8%**

6,032,410

International passenger movements **up 0.8%**

7,415,792

Increased air linkages are recognised as a key government priority to grow New Zealand tourism and help stimulate growth

Group income **down only 1.4%** to $363.1 million in tough market conditions

Significant capital expenditure reduction and deferral – for example, **second runway, roading access and terminal expansions**

Operating expenses **down 2.3%**

$86.8 million

Underlying profit stable at

$105.1 million

Capital expenditure **down 38.0%**

$54.3 million

Gain on fair value of investment property of

$9.5 million

Total passenger movements up 3.8% to 13,448,202

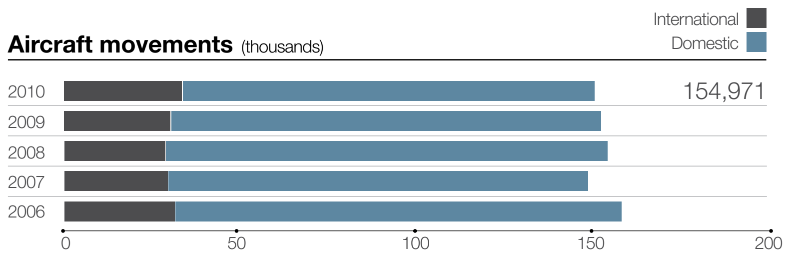
Good operational efficiencies achieved – **LEAN Six Sigma**

Retail first-floor development on target and now in final phase

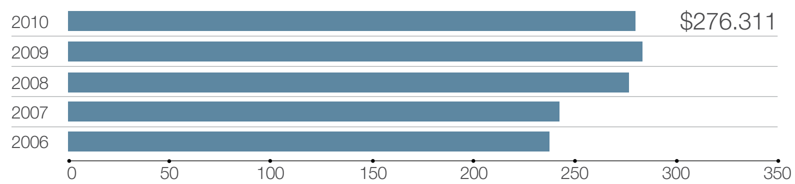
Sneak Peek

See how we've been tracking over the past five years.

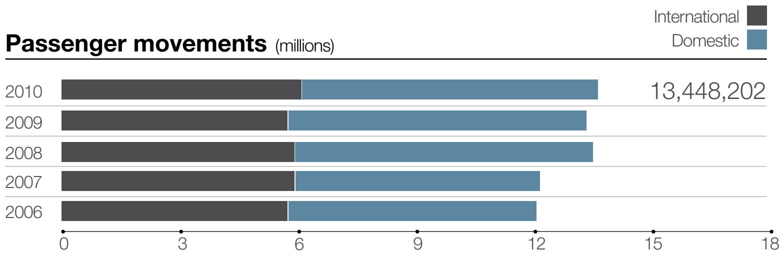
Aircraft movements (thousands)



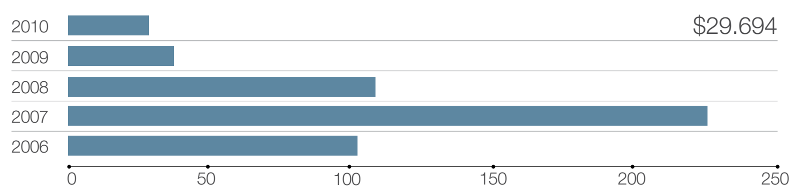
Operating EBITDAFI ($millions)



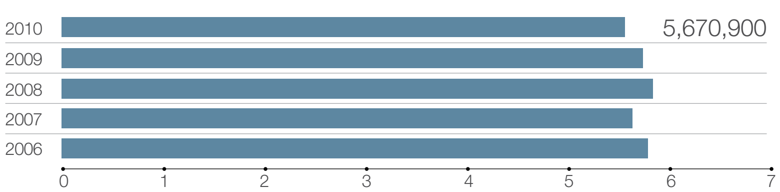
Passenger movements (millions)



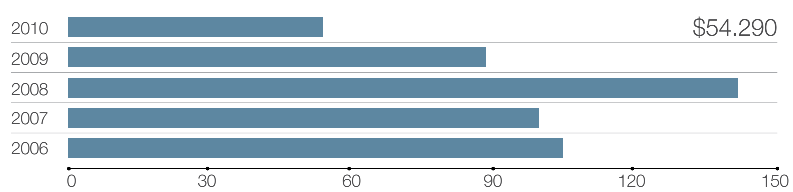
Profit after tax ($millions)



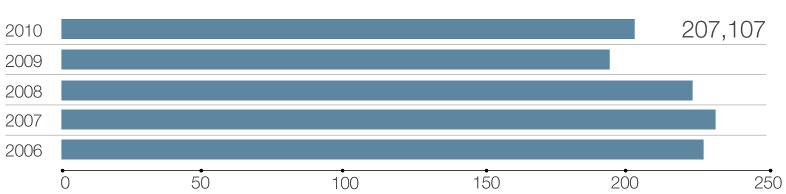
Maximum certified take-off weight (MCTOW tonnes) (millions)



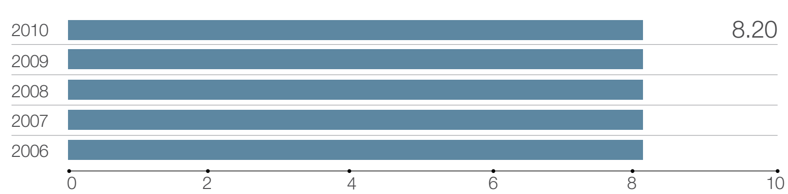
Capital expenditure ($millions)



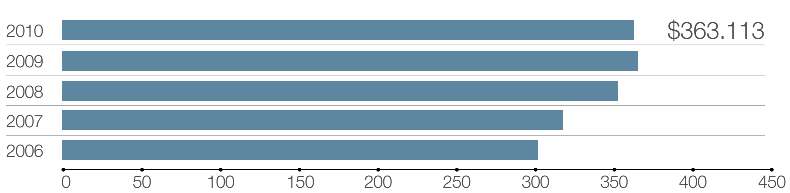
Cargo tonnes (thousands)



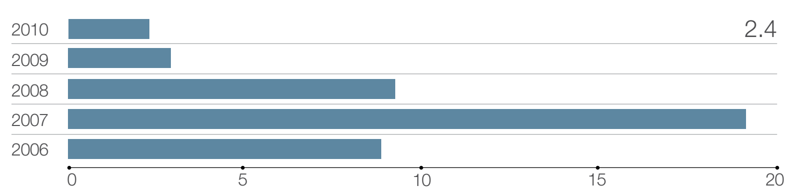
Ordinary dividends (cents per share)



Revenue ($millions)



Earnings per share (cents per share)



Chairman Tony Frankham and chief executive Simon Moutter have kept their eyes firmly on the long-term horizon while guiding Auckland Airport through the recent turbulence caused by the global economic downturn and the consequential impact on tourism, travel and trade.

Determination[NZ]

In reflecting on a better than expected year for Auckland Airport in 2010, two things stand out

Underlying profit

Reported profit after tax
2010 $29.7m
2009 $41.7m

Add back unusual items
(e.g. property revaluations, restructure costs, ownership bid costs, long-term incentive costs and tax effects)
2010 $75.4m
2009 $64.2m

Underlying profit
2010 $105.1m
2009 $105.9m

First, the aviation sector, while still facing some uncertainty, is in a healthier position today than it was 12 months ago, with improvement in the global economic environment and an increase in demand for travel consequently. Second, our transformation from a builder of infrastructure to a sales-led engine of economic growth has enabled genuine traction on key elements of the enterprise-wide growth strategy that has been underway since March 2009. The company is now positioned to turn travel demand growth into profit growth.

These two factors helped Auckland Airport deliver, in tough operating conditions, a financial and operational result that is better than we initially expected it would be and provide a firm foundation for an uplift in 2011. We also proved that Auckland Airport can make a significant economic and social contribution to New Zealand, through increased international passenger volumes and our ability to foster tourism, travel and trade through greater global connectivity.

Financially, our underlying net profit after tax (excluding fair value changes and other one-off items) was $105.1 million, substantially ahead of our original guidance of between $93.0 million and $100.0 million. Operationally, the early results from implementation of the growth strategy are well ahead of our internal plans.

Our growth strategy was originally founded on the belief that, after several years of relatively flat profitability, we needed to take a fresh approach to get the company onto a sustainable growth path and that, in tougher recessionary conditions, we could not expect growth to be driven only from the natural rise in demand for air travel which we have experienced in the past.

While operating conditions have since improved, the rationale behind our strategy remains as important as ever. The moves we have made to shift resources away from building infrastructure and on to developing opportunities (both within existing activities and in complementary businesses where we can add value) will enable us to grow earnings more quickly than would otherwise be the case.

In effect, our focus has been shifted to working every lever we can to drive passenger volumes and higher on-airport spend rates, whilst trying to accommodate this growth within our existing infrastructure and operating cost base wherever possible.

We are making good progress

Progress on our strategy has been excellent.

We have completely refocused the business, we are driving operational efficiencies, we have secured airline announcements for a large number of new or up-scaled air services, and we have embarked on one of New Zealand's most active property development initiatives. We have also invested into two strategically located airport companies to help drive more passenger volumes and increase our footprint in the Australasian market, giving us greater influence with the airlines and agencies.

> “Customer service is at the heart of our business.”
> Simon Moutter

Meanwhile, we've kept customer service at the heart of our business, being voted by passengers worldwide for the second year in a row as one of the world's top 10 airports in the annual Skytrax Awards.

These achievements have enabled us to overcome the financial challenges we anticipated before the year commenced. Suppressed travel demand, combined with a resetting of duty free concessions under a two operator model in the midst of a heavy construction programme, meant that we originally planned for a lower profit performance in 2010 than was delivered in the previous financial year.

The first half of the year was broadly in line with expectations, as the global economic downturn and the lingering effects of the H1N1 influenza pandemic dampened demand for air travel. Many airlines responded to the tough conditions by reducing capacity with changes to routes, aircraft sizes and frequencies. During the second half of the year, global travel demand began to recover and our tourism promotional activities kicked in, helping support our earnings in the latter months.

Nonetheless, revenue was down 1.4 percent to $363.1 million over the year. This marginal decline was less severe than was initially expected. Costs were tightly managed over the year, with operating expenses reduced to $86.8 million down 2.3 percent, and capital expenditure to $54.3 million, substantially down 38.0 percent, from 2009. Our operating cash flows were $176.3 million, up 3.6 percent from 2009.

The reported result for the year, an after-tax profit of $29.7 million, and its comparative figure of $41.7 million last year, are not truly indicative of the group's real performance. Earnings before interest, tax, depreciation, fair value adjustments and investment in associates (EBITDAFI) and underlying profit after tax are better indicators.

Underlying earnings adjust for the effects of investment property revaluations, restructuring costs in 2009, the tax effects of these adjustments and the deferred tax adjustment on buildings.

The $84.4 million deferred tax adjustment in the 2010 financial year arises from the change in tax legislation to remove tax depreciation on buildings with a life of equal to or greater than 50 years together with the observance of compulsory New Zealand equivalents to International Financial Reporting Standards on taxation.

Profit after tax	2010 Reported earnings $000	2010 Adjustments $000	2010 Underlying earnings $000	2009 Reported earnings $000	2009 Adjustments $000	2009 Underlying earnings $000
EBITDAFI per Income Statement	276,311	-	276,311	279,414	4,192	283,606
Share of profit of associates	98	-	98	949	-	949
Investment property fair value increases/ (decreases)	9,469	(9,469)	-	(64,586)	64,586	-
Depreciation	(55,736)	-	(55,736)	(54,766)	-	(54,766)
Interest expense and other finance costs	(71,938)	-	(71,938)	(75,590)	-	(75,590)
Deferred tax adjustment on buildings	(84,404)	84,404	-	-	-	-
Other taxation expense	(44,106)	422	(43,684)	(43,696)	4,612	(48,308)
Profit after tax	**29,694**	**75,357**	**105,051**	**41,725**	**64,166**	**105,891**

22 international airlines at Auckland Airport

The directors disagree with the appropriateness of the application of this standard and its effect on the reported result. Further explanation and information are given in notes 3(c) and 6(d) to the financial statements which appear later in the annual report.

International passenger volumes, excluding transits, showed resilience during the worst of the recession growing 2.4 percent over the full year, predominantly driven by a relatively strong Australian economy, increased capacity on the trans-Tasman routes and airfare competition, as well as by tactical promotional activity initiated by Auckland Airport. There were also pleasing increases in some key growth markets in recent months. Domestic passenger volumes showed consistent strength to growing by 7.8 percent over the year, largely reflecting the impact of a full year of operations by Jetstar.

Our big investment in air-services development is really starting to pay off, with announcements from airlines to introduce new international capacity to Auckland totalling in excess of 850,000 more seats per annum by late 2011. These announcements include two major long-haul route developments – a new Auckland to Houston connection and a second airline on the Auckland to Singapore route.

Any success of ours is shared by New Zealand trade and tourism. International passenger numbers benefit us and exponentially benefit the country, with each international visitor generating around $2500 for New Zealand tourism. So the economic benefits to the country from these air-services announcements are enormous. Assuming an average load factor and proportion of inbound international visitors, conservative estimates are that these additional seats can deliver in excess of $400.0 million per annum in direct economic benefits to the New Zealand tourism industry.

Cairns and Mackay Airports have seen a substantial increase in capacity also, with over 800,000 seats added or announced since March 2010. These include the entry of Pacific Blue and the announcement by Jetstar of direct Auckland to Cairns services.

Number crunch

Just a few figures that we think matter

13.5 million
travellers used Auckland Airport in the 2010 year

24.0 million
passengers per year forecast by 2025

72.0%
of international visitors to New Zealand depart from or arrive in Auckland

Q A

Simon Moutter

Chief executive

What are your responsibilities?
I am responsible for the overall leadership, strategic direction and executive management of Auckland Airport.

How long have you been at Auckland Airport and what is your background?
Prior to joining the team in 2008, I 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.

What are your qualifications?
I have a BSC (Physics) and an ME (Electrical).

“International passenger volumes, excluding transits, showed resilience during the worst of the recession, growing 2.4 percent over the full year.

Simon Moutter”

Q A

Andrew Pirie

Strategic communications advisor

What are your responsibilities?
I provide high-level direction on strategic, corporate and stakeholder related issues to ensure the voice of Auckland Airport is heard where it matters.

How long have you been at Auckland Airport and what is your background?
I joined in 2008. I'm an experienced communications strategist and, until 2007, spent over 11 years working in Asia-Pacific, where I was regional CEO for one of the world's largest public relations firms. Prior to that, I held New Zealand-based roles in public relations and journalism.

What are your qualifications?
Diploma in Journalism.

Q A

Tony Gollin

Chief operating officer aeronautical

What are your responsibilities?
I am responsible for the aeronautical business and for providing a seamless service between Auckland Airport and its aeronautical customers. I am responsible also for design, construction, aeronautical operations and maintenance of airport and terminal facilities.

How long have you been at Auckland Airport and what is your background?
I rejoined in 2004; I am an aviation industry specialist who has worked in international airport development and has held senior roles in the public and private sectors.

What are your qualifications?
Justice of the Peace, Fellow of the Chartered Institute of Transport, Bachelor of Commerce and Administration, Master of Public Policy.

Aeronautical

We are highly regarded globally as an airport operator and we value our relationships with our airline customers and their passengers.

> "Auckland Airport was voted the ninth-best airport in the world (up from tenth last year) and the best airport in the Australian-Pacific region in the 2010 Skytrax World Airport Awards."

Our people here at Auckland Airport also won the Staff Service Excellence category for the region. The awards are based on voting by 9.8 million passengers worldwide.

01

In July 2009, in recognition of the extraordinary conditions being experienced at that time by our airline customers, we deferred a scheduled increase in our landing charges, effectively waiving $2.7 million of revenue over a nine-month period. We returned to the scheduled pricing arrangement in March 2010.

During the year, our Aeronautical team took their efforts to maximise the efficiency of our airport operations and existing infrastructure up a level. Significant time and cost savings for passengers and airlines have been realised through the use of LEAN Six Sigma process-improvement methodologies in arrivals processing and aircraft handling. Valuable time has also been given back to passengers through the successful facilitation of new technologies such as SmartGate automated processing and Air New Zealand's self check-in kiosks.

Another technological innovation has seen the introduction of an Advanced Passenger Display system, which has provided vastly improved real-time information on the number and nationality of arriving passengers, enabling much more accurate resourcing and better customer service across the airport and border agencies.

01 **Auckland Airport** was voted ninth best airport in the world, and in the top 10 in the world for the second year in a row.

02/03 Valuable time has been given back to passengers through new technologies such as SmartGate.

02

03

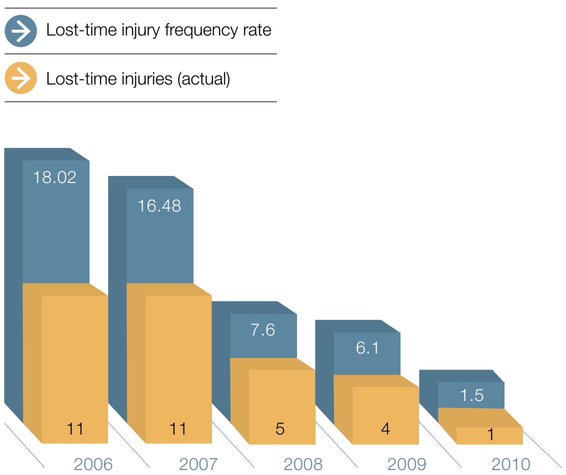
Construction work on the northern runway was paused in 2009. In July 2010, following consultation with the airlines and a review of capacity-management options, we have decided to defer construction for several more years. This decision will ease some significant cost pressures on airline customers for the medium term and provide for more timely delivery of future infrastructure needs. The eventual recommencement of construction will be demand driven relative to the capacity of the existing runway.

Our health and safety performance continued its dramatic improvement trend of recent years. We were awarded a Tertiary-level status following the biannual workplace safety management practices audit by the Accident Compensation Corporation (ACC). This has delivered a 20.0 percent reduction in our ACC levy payments over the next two years. In addition, two Civil Aviation Authority (CAA) audits (for security and safety) were passed with flying colours, improving our already excellent CAA risk rating even further.

Auckland Airport's key health and safety performance indicator is Lost-time Injury Frequency Rate (LTIFR). The airport continued an extremely positive trend in safety performance, recording the best score since safety statistics were first recorded by the business in 1996, with an LTIFR of 1.5, well below industry standard. This result was highlighted by our Airport Emergency Services achieving 12 months' Lost-time Injury free. This is a first for them and extraordinary when the physical nature of their work is taken into consideration.

> Our health and safety performance continued its dramatic improvement trend of recent years.

Auckland Airport's health and safety indicator



Beautiful New Zealand

An appeal to the public to submit their favourite photos of New Zealand for an Auckland Airport/ New Zealand Herald photo competition gathered more than 8,000 stunning shots.

The photos were showcased in the Herald during July, and published online with the top photos featuring in a celebration of New Zealand exhibition in Auckland Airport's international terminal.

The pictures editorial team at the New Zealand Herald had an enormous job trying to whittle the thousands of entries down to the final few. The amazing photography captures the beauty and drama of New Zealand, with Mt Taranaki being the subject of two of the winning shots.

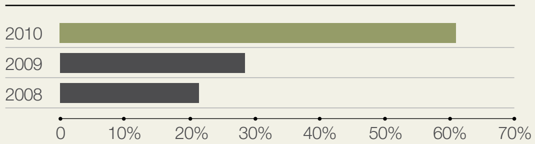
The winning shot was taken by Jeremy Beckers and is a photo of Mt Taranaki taken from the Pouakai ranges. For his fine effort Jeremy received a Boutique Mystery weekend break. Second prize, a Sony Cyber-shot HX5 digital still camera, was taken out by Malcolm White for his shot of Kerosene Creek just south of Rotorua and Tim Wilton's photo taken up Mt Taranaki secured third place and a prize of a Sony Bloggie HD video camera.

Sustainability

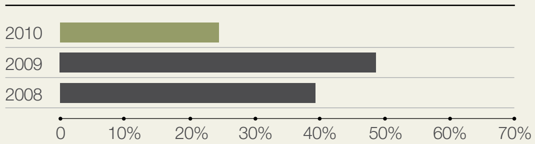
We are now three years into our first five year sustainability action plan and considerable progress has been made over the past twelve months.

Auckland Airport Performance Summary

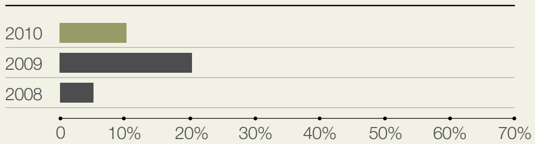
Targets achieved



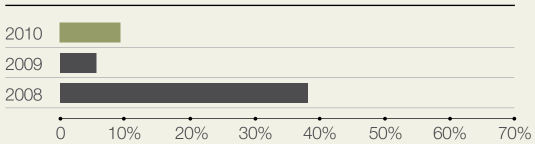
Targets on track



Work required



Not achieved



This performance indicates Auckland Airport is successfully embedding sustainability into our everyday business practice.

With clear progress being made, we felt it important to seek external validation of our efforts. In March 2010 we signed up to the Earthcheck, a global sustainable tourism certification programme. Earthcheck requires participants to monitor and manage key sustainability indicators over the long term.

We were delighted to be awarded Bronze benchmarked status in May this year, which recognised the work we had already undertaken. We are now working hard to achieve silver certification which will involve an independent third party audit of our systems and FY2010 performance.

Greenhouse gas emission reductions, and related energy efficiency opportunities, have been a key area of focus over the last twelve months. In September 2009 we began a detailed audit of our international terminal building, part funded by the Energy Efficiency and Conservation Authority (EECA). The final report presented in March 2010 indicated some significant energy and carbon emission savings that are now the focus of an energy management programme. Our leadership in this area was recognised by EECA who produced a short video on our approach to energy management, now made available to other businesses on the business pages of the EECA website.

Our award winning travel plan Lift continues to be popular with the environmentally conscious employees across the airport and we exceeded our 2012 target this year with over 780 people now having registered to carpool. Lift won the Transport Category of the 2009 (EECA) Awards.

We have also made excellent progress in our social performance, in particular in the areas of safety, sponsorship and reporting.

“Of the 41 targets Auckland Airport set itself in 2008, 61.0% have now been achieved with a further 24.0% on track to be achieved by the end of the 2012 financial year.”

GROWING SUSTAINABLY 2008 – 2010

Auckland Airport sustainability headline indicators

Climate change/energy

Total CO_2e

2010	**9,377**
2009	11,727
2008	11,306

Surface access

Lift carpoolers

2010	**781**
2009	664
2008	528

Resource use

H_2O per pax

2010	**0.054**
2009	0.050
2008	0.053

Total water usage

2010	**720,158**
2009	623,574
2008	640,000

Community

Sponsorships $m

2010	**0.480**
2009	0.425
2008	0.903

Environmental sustainability

Spills to environment

2010	**0**
2009	0
2008	0

Total environmental protection spend ($m)

2010	**0.76**
2009	0.55
2008	0.49

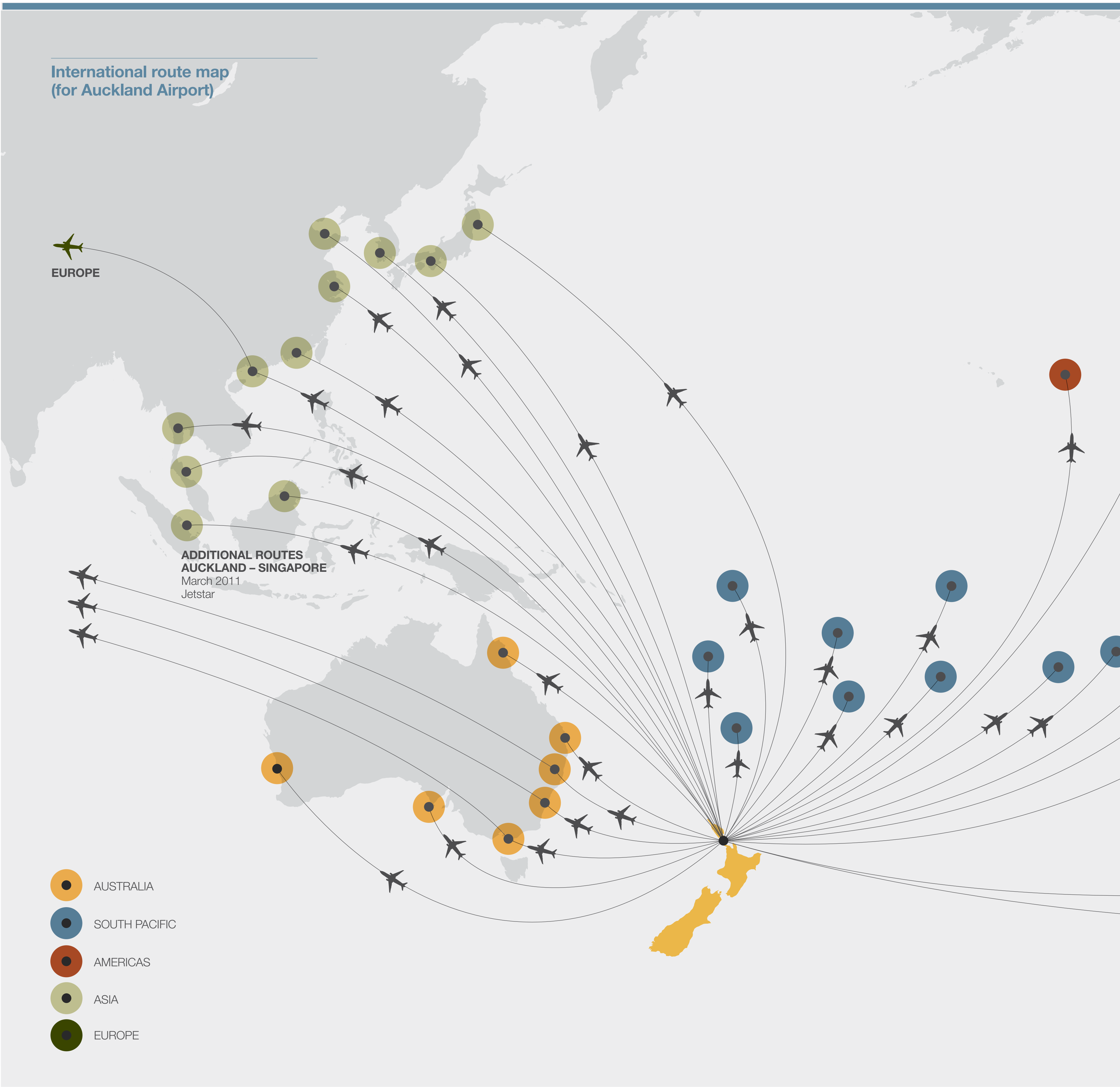
Check yourself

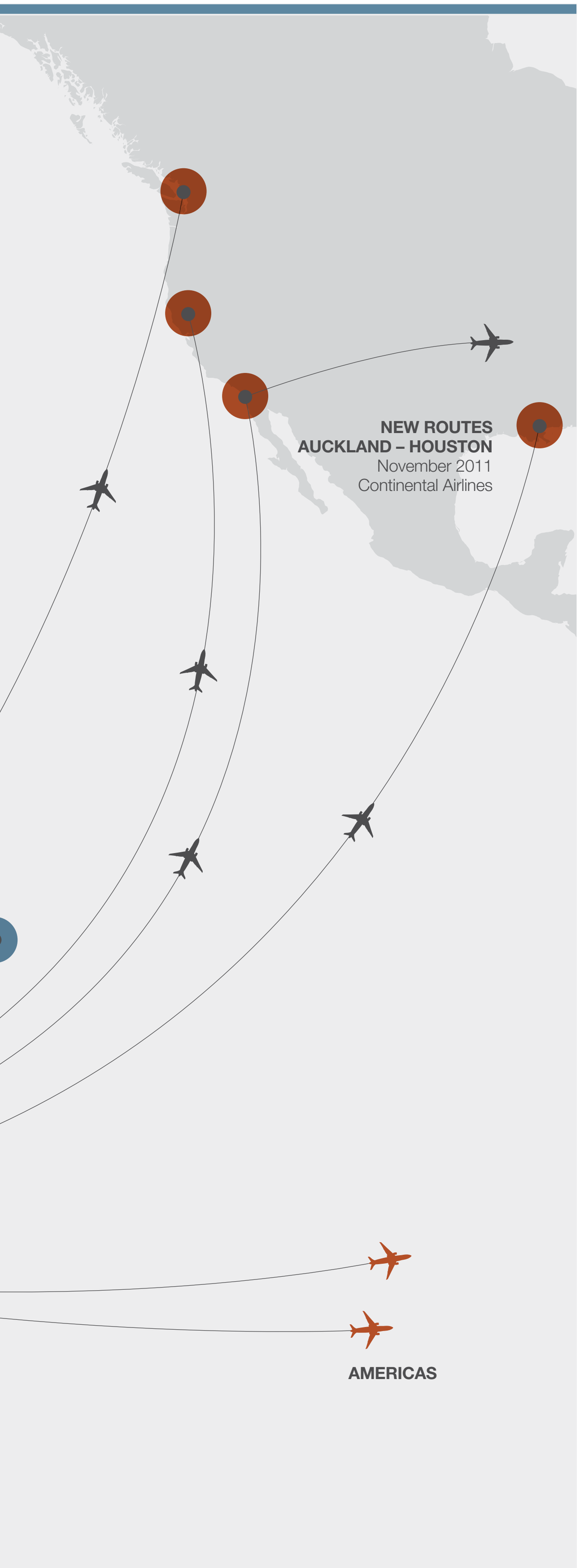
When flying with Air New Zealand, the check-in queues for flights to Australia are now a thing of the past at Auckland Airport

Passengers travelling across the ditch with Air New Zealand can now scan their passports at a kiosk, print bag tags, drop their luggage onto a conveyor belt and get their boarding pass without the hassle of waiting.

Air New Zealand airport manager Greg Edmonds says more than 70.0 percent of people travelling to Australia use the kiosks each day. “They’re simple to use, really fast and user-friendly,” he adds.

There are 18 new self-service kiosks in the economy check-in area, and six in the premium check-in area. The new check-in kiosks are similar to those introduced at Air New Zealand’s domestic terminals in 2008 and are expected to halve the time it takes to check in.


International route map
(for Auckland Airport)
EUROPE
ADDITIONAL ROUTES
AUCKLAND – SINGAPORE
March 2011
Jetstar
AUSTRALIA
SOUTH PACIFIC
AMERICAS
ASIA
EUROPE



850,000 additional seats

Domestic travel is up 7.8%

Aeronautical business development

Increased air linkages are now recognised as a government priority to grow New Zealand tourism and to help accelerate economic growth.

We have built a dedicated team which is out in the global market place pitching business cases to new and existing airlines.

Our air-services development work is based on developing detailed market information, working through any obstacles, and proving business cases for a range of new and existing airlines, including some that otherwise might not have considered New Zealand as an option. We target a balanced and sustainable range of airlines and markets which have growth potential.

The 850,000 additional seats announced include over 220,000 seats to Singapore starting March 2011, 140,000 additional seats to Houston starting November 2011, and a range of extra capacity from over seven airlines across more than 10 different routes. That is a significant boost to air linkages and economic activity in New Zealand.

Some of the new air-services are particularly noteworthy. The Jetstar to Singapore application of a low-fare carrier model to long-haul destinations is an important development that will build connectivity between the fast-growing Asian markets and New Zealand. Another important new air service is heralded by Continental Airline's decision to commence daily direct flights from Auckland to Houston. This opens up a major new US market opportunity to Auckland Airport and New Zealand tourism, and complements the market-development work being done in other parts of the US.

And it's not just about more seats. We invest promotional funds alongside the airlines and industry, and build partnerships with the travel trade in key growth markets to help build demand for any new capacity introduced by the airlines. Our air-services development team has already been recognised for its efforts, winning the best airport in Asia for international marketing at the prestigious 2010 Routes Asia Airport Marketing Awards.

Asia is particularly important to New Zealand's future trade and tourism prospects. We are investing several million dollars over the next few years to help develop the Asian trade and tourism market opportunity with existing and new airlines. According to International Air Transport Association (IATA) figures, Asia is already the biggest tourism market in the world, and it is predicted to grow more quickly than any other market over the next 20 years. We think a realistic target for New Zealand is an additional 250,000 Asian visitors annually within the next five years. To put it into context, this would deliver an economic benefit equivalent to the estimated international visitor impact of three Rugby World Cups, each and every year.

While we are naturally disappointed at the planned withdrawal of Pacific Blue from the New Zealand domestic aviation market in October 2010, we are confident that the ongoing strong growth of the domestic travel market will ensure future customer demand continues to be met. Even if no other airline picks up the Pacific Blue capacity, which we believe is unlikely given the growth aspirations of the other domestic airlines, the financial impact on Auckland Airport will be relatively small.

New Zealand consumers have certainly enjoyed the benefits in recent years of having more domestic airlines competing on the main trunk routes. The additional air-services capacity and competition have been factors in the excellent growth of domestic travel, which has been up by 7.8 percent at Auckland Airport in the 12 months to 30 June 2010.

Q A

Adrian Littlewood

General manager retail and commercial

What are your responsibilities?
I am responsible for all of our retail businesses, including duty free, specialty retail, food and beverage, as well as our transport and parking businesses. Also, I am responsible for passenger experience, brand and marketing activities.

How long have you been at Auckland Airport and what is your background?
I joined the team in February 2009 from Telecom, where my 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, I worked as a management consultant in the UK and also as a commercial lawyer in both the UK and New Zealand. I hold a BA/LLB from the University of Auckland.

Retail and commercial

Our retail and commercial activities have been resilient during a very challenging year.

We have focused on broadening our range of products and services, driving the redevelopment of the first floor of the international terminal, bedding down a dual duty free operation, and applying a proactive landlord model to increase the trading performance of our retail business partners.

Amongst our many new products and services is an online booking system for car parking at the airport. The online system provides airport customers with the ability to book and prepay online, ensuring their parking space is guaranteed and often at a significantly discounted price. The offer has proven exceptionally popular and demand has exceeded expectations; in some customer segments we have seen over 30.0 percent growth, despite the service launching only in May 2010.

The major first-floor development has continued on schedule and on budget. In May 2010, JR Duty Free and DFS opened two world-class duty free stores in the international departures area. The two new stores have been designed to deliver an individualised and interactive shopping experience, showcasing exclusive brands and New Zealand designs. A further stage of new airside retail stores opened in August 2010.

The landside concourse is nearing completion with the primary food and beverage and retail area revamped, with only a few of the food and beverage tenancies still to be refreshed in FY2011 prior to the Rugby World Cup. The emigration processing area, launched in November 2009, has been completely refitted and expanded and the final stage of airside retail is well underway and due for completion in December 2010.

During the financial year, we have had to work hard with our retailers to offset the impact of the economic downturn and the disruption from construction works. We have ensured that ongoing development has been carefully staged to minimise trading impact and we have supported in-store performance through Auckland Airport-sponsored sales training, marketing and support programmes.

The tree

One of the most exciting and unique aspects of the new airside retail shopping area in the international terminal will be a large tree-like structure planned as the centrepiece for the entire space.

The tree will be a distinctive and iconic focal point, with a huge canvas canopy billowing out like the roof of a marquee and constantly changing in colour and appearance, with the help of some high-tech lighting situated in the ceiling.

The tree will be surrounded by retail shops, as well as new food and beverage outlets, and will be part of an area where passengers can relax, unwind and reflect. It is scheduled to be completed in December 2010.

> Auckland Airport is one of the most active commercial property developers in New Zealand.

Property

Our performance turnaround in property development has been exceptional.

We have taken advantage of the downturn in the property market to accelerate our property development activities significantly over the last 12 months.

With over $115.0 million worth of property development committed or underway, the Airport Business District is now among the most intensive commercial property development areas in New Zealand, and Auckland Airport is one of the most active commercial property developers.

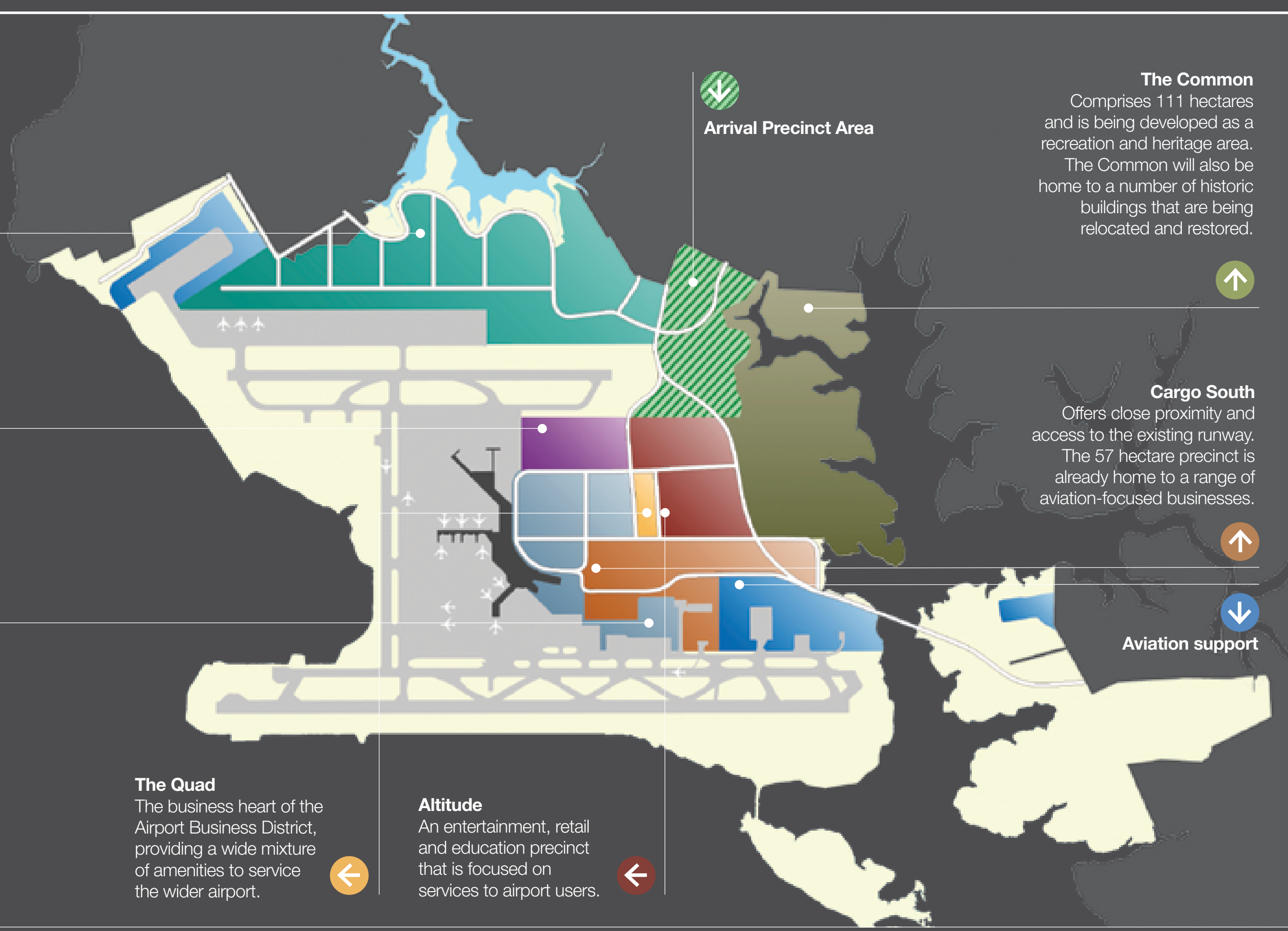
This reinvigoration of commercial property development activity is consistent with our growth strategy, as we can accelerate our earnings growth by making more effective use of the extensive development land we have available within the Airport Business District.

To achieve this, a coherent property precinct plan has been developed, dividing the Airport Business District into logical groupings of industry type and sector.

New development projects confirmed in the last year include a food innovation centre for New Zealand Food Innovation Manukau. This is an export-certified purpose-built plant to support food manufacturers in developing and testing products for commercialisation, specifically for the fast-moving consumer goods market. Another of the new projects is a training facility for Travel Careers & Training, an organisation providing leading training solutions for people in the airline, travel and tourism sectors.

These new developments accompany other Auckland Airport development successes, including two new hotels – a Novotel and a Formule 1 – relocation of the parts warehouse of luxury global car brand Mercedes into a new office/warehouse facility in The Landing precinct of the Airport Business District, and an office and warehouse facility for DSV Air & Sea Limited, also to be located in The Landing.

AIRPORT BUSINESS DISTRICT
PRECINCT PLAN



Novotel

The construction of the four-star, 260-room Novotel hotel is well underway and expected to be completed for the Rugby World Cup 2011.

01

Our hotel strategy is worth noting. With a Formule 1 (two star) and a Novotel (four star plus) in our Auckland Airport accommodation portfolio, both run by world-class operator Accor, we will soon be able to meet two very different market segment needs. We are determined to ensure that, in time, we are able to serve all other travellers' short-stay accommodation requirements. If the demand is there, we intend to meet it, right here at Auckland Airport.

02

03

01 Artist's impression of the Novotel Hotel.

02 Hotel reception (artists impression)

03 Hotel restaurant (artists impression)

Q A

Peter Alexander

General manager property

What are your responsibilities?
I am responsible for our investment property portfolio, including the management of existing assets as well as driving new property developments.

How long have you been at Auckland Airport?
I joined in 2008.

What is your property background?
I have over 20 years' experience in investment management including property investment and development in New Zealand and offshore. I hold a Bachelor of Property degree.

Corporate and community

Auckland Airport remains deeply engaged with government, tourism, industry and community stakeholders.

We continue to work with the Commerce Commission on its determination for the most appropriate methodology to regulate New Zealand's major airports. The Commission issued a Draft Determination in May 2010 which, while representing a positive evolution from its starting position, does not yet remove all uncertainty, in particular in relation to the valuation of land held for future use. We expect a final determination by the end of December 2010.

Auckland Airport welcomed a decision by the Supreme Court in June 2010 which signalled the end of a lengthy court process initiated by the Craigie Trust, in relation to land owned by Auckland Airport. Auckland Airport had always been of the view that the claim was without merit and now that the court process is complete the use of this land can be fully integrated into our wider property strategy.

This decision, along with the positive Plan Change 13/14 outcomes earlier in the year, means that Auckland Airport's land use has been clarified and we can continue to build a modern and dynamic Airport Business District which will generate economic growth for Auckland and New Zealand.

Our corporate and community sponsorship programmes continued throughout the year, covering a wide range of events, organisations and charitable causes. We have also continued financially supporting the Auckland Airport Community Trust.

An inaugural Health and Wellbeing week was held late in 2009 to promote a better quality of life amongst staff. This included a variety of activities, seminars and events, and was well attended. Furthermore, a large number of the workforce engaged in a 'biggest loser' competition; the eventual winner lost weight in excess of 20kg.

Auckland Airport is now better connected to the city and the wider Auckland region than ever before. We believe that a city's ability to participate in the global economy and successfully compete with other cities requires the city and its airport to be tightly integrated. An effective and efficient multi-modal transport network is one of the most important elements to ensure that the airport is cohesively integrated into Auckland.

We have been working with city planners and transport authorities to help advocate and accelerate longer term improvements to airport-related public transport services, including the possibility of a future Rapid Transit Network link to the airport.

Auckland Airport has been proactive in working with the Auckland Regional Transprt Authority (ARTA), territorial authorities and bus operators to progress an improved airport to CBD bus service (Airbus Express), a bus link from airport to North Shore (The Northern Flyer), a new bus link to Manukau City (The Airporter), the use of the Northern Busway by airport shuttles, and extended clear routes and bus lanes along main CBD/airport transport arteries.

Pleasing progress has been made on improved roading infrastructure (such as the State Highway 20 upgrade and the completion of the second Manukau Harbour crossing), which has already made a significant difference to the ease and journey time of road transport to and from the airport, and we look forward to the benefits that will be delivered by further roading projects nearing completion.

> "Increased business activity at and around Auckland Airport will also help add critical mass to support the viability of essential public transport connections to the airport."

DOUG FARR

Simple ideas save time

During the year, Auckland Airport ran an airport precinct wide awards programme called Every Minute Matters. The purpose was to generate great ideas for saving time.

Auckland Airport's Supreme Every Minute Matters award went to National Disinsection Manager Doug Farr and the team at the MAF who instigated a new process that saves every aircraft coming into the airport between five and eight minutes of time. It's a huge saving for the airport and for the individual airlines.

Like all the best ideas, it was simple. Instead of MAF officers physically being present at the arrival of all flights and checking the disinsection certification papers each aircraft is required to have, Doug realised it was faster and easier to check the certification online prior to arrival, so each aircraft was already pre-cleared before landing in Auckland, thereby speeding up the process for disembarking, including the baggage and cargo handling, which can now be started as soon as the aircraft has landed.

The idea has been such a hit with everyone involved that Doug was able to convince the Australian equivalent, AQIS, to instigate the same system. Doug has worked with AQIS on a shared database for both countries, and the system is now up and running on both sides of the Tasman.

Every minute MATTERS

> Sponsorships are undertaken to establish closer ties with the community, the environment, important stakeholders, charities, education and events. At the same time Auckland Airport's sponsorships build the company's reputation, relationships and returns.

Sponsorships

For the third year in a row Auckland Airport sponsored TRENZ, New Zealand's annual tourism trade show.

Over four days, almost 1000 people from the travel and tourism industry convened at the ASB showgrounds in Auckland to meet with overseas buyers and promote their products. Auckland Airport met with buyers from 30 different countries including Japan, India, Malaysia and Thailand to get a feel for their market and scope the potential to open new services out of the destination. The event provided the perfect platform for the airport to announce Continental Airlines' new direct services from Houston to Auckland, which commences in November next year, and reinforces Auckland Airport's financial commitment to growing air services out of Asia.

In other sponsorship initiatives, the international arrivals hall at Auckland Airport has taken on the look of a surfing destination, a rally car track and been decked out in mannequins to help celebrate and promote Auckland events. Auckland Airport has been partnering with local and regional events to help profile the event and grow New Zealand tourism. March was an eventful month with more than a dozen iconic events taking place from the Louis Vuitton Trophy to Auckland Cup Week.

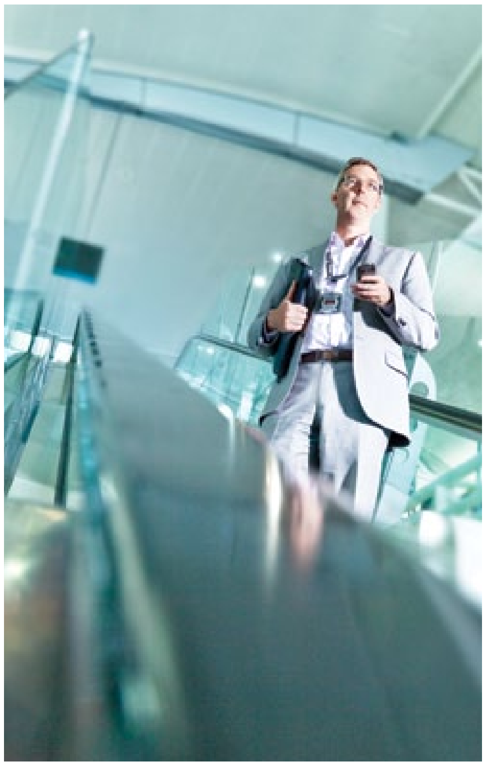
12 days of Christmas

For years, travellers through Auckland Airport have generously donated their foreign currency or loose change in the large donation globes positioned throughout the airport, which was then distributed to charities.

For the last two years, in the 12 days leading up to Christmas, Auckland Airport has donated that money to 12 different local and national charities as part of a programme.

The donation programme was open to the whole of New Zealand, to reflect the fact that the people who put the money in the globes have usually enjoyed travelling the breadth of our beautiful country. In the end, Auckland Airport distributed a total of $120,000 to 12 different charities in a bid to spread some Christmas holiday goodwill.

The extremely difficult job of whittling the list down to just 12 was a team effort with local mayors, community leaders and senior management involved in the selection process. The charities selected represented a range of national and local organisations covering health, family, and environmental issues, and, in most cases, the donation went directly to a particular item.



Charles Spillane

General manager corporate affairs

What are your responsibilities?
I am the senior legal advisor and corporate secretary. I am also responsible for corporate communications, governance, government relations, the share registry, risk management and insurance.

How long have you been at Auckland Airport and what is your background?
Before joining in 2002, I practised law at Russell McVeagh.

What are your qualifications?
I am a Fellow of the Institute of Chartered Secretaries and hold a Bachelor of Arts and a Bachelor of Laws with Honours.

Queenstown Airport

Queenstown Airport is the fastest growing airport in New Zealand and is pivotal to the tourism growth aspirations and future of the region, known as the 'Adventure Capital of the World'.

Situated in the Wakatipu Basin, a short drive to Queenstown, overlooked by the Remarkables mountain range, Queenstown Airport is a key driver of economic prosperity in the Lakes District and an outstanding international gateway for the region.

Queenstown Airport has the fourth largest number of international visitors of any airport in New Zealand and has a significant domestic visitor market.

Over the past five years, international passenger volumes have quadrupled and domestic passenger volumes have increased by 22.0 percent. In the 12 months ended 30 June 2010, the airport had 811,464 passenger movements (international 107,572 and domestic 703,892).

New forecasts for Queenstown Airport show scheduled passengers and non-scheduled passengers will quadruple over the next 30 years.

Cairns and Mackay Airport

Cairns Airport is Australia's seventh busiest airport, with approximately 3.7 million passengers in the year to 30 June 2009 (compared with Auckland Airport's 13.0 million passengers in the same period).

It is the closest international airport to Asia on Australia's eastern seaboard and is the gateway to Tropical North Queensland, an internationally renowned tourism region boasting two World Heritage listed attractions; the Great Barrier Reef and the Wet Tropics Rainforests.

Mackay Airport is an important regional domestic airport with nearly 1 million passengers in the year to 30 June 2009. Mackay Airport is the main airport servicing the Bowen Basin, an important region for natural resources, which contains one of the largest deposits of coal in the world. Mackay Airport also benefits from its close proximity to the Whitsunday Island resort.

Our two airport investments

Our two investments in minority stakes in North Queensland Airports Limited and Queenstown Airport are consistent with our strategy to add to shareholder value by shifting some resources into areas that will accelerate earnings growth.

24.99%
investment in Queenstown Airport

24.55%
stake in North Queensland Airports – Cairns and Mackay

In January 2010 Auckland Airport acquired a 24.55 percent stake in Cairns and Mackay Airports for NZ$166.7 million to increase our footprint in Australasia, to grow tourism volume into New Zealand and to provide a 'stepping stone' to Asia.

In July 2010 Auckland Airport formed a strategic alliance with Queenstown Airport and bought a 24.99 percent stake in its southern counterpart for $27.7 million.

Both these airport companies are on strong growth paths and represent good investments for us on a stand-alone basis. In addition, each airport provides exposure to higher-growth economies and the opportunity to build connectivity to those markets. They provide us with the ability to leverage airport partnerships when pitching to airlines.

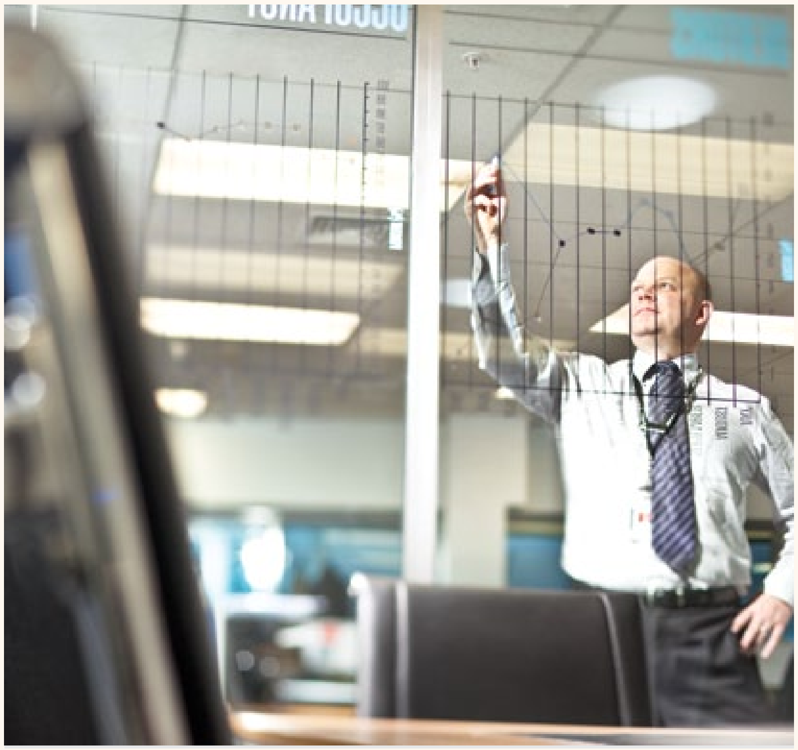
Because we are now promoting four airports, spread across both sides of the Tasman, we become more relevant. Having a minority shareholding cements our alliance relationships and aligns Auckland Airport with those airport operators financially to make the partnership more credible to airlines and the travel trade.

There are economies of scale in airports which enable larger airports to develop higher skill levels in many areas through the employment of specialist expertise. For this reason, we have much value to offer our partner airports. In return, we are able to broaden our influence with airlines and the industry in the Australasian market, for the benefit of Auckland Airport and our investment in these airports.

While the combined investment is relatively small, around 6.0 percent of our total assets, our focus is now on demonstrating that these partnerships work.

We are well aware that there is opposition to the Queenstown alliance from some parties with interests of their own in the region. We do not intend to allow this opposition to distract us from our focus on making the alliance work in the best interests of both airport companies and their shareholders, and the wider Queenstown Lakes District community. We believe that through the alliance we can deliver an additional $150.0 million per annum worth of economic benefit to the Queenstown Lakes District region.

Results are already promising, with North Queensland Airports Limited recording excellent growth in June and July 2010 as it enters its peak season, and Queenstown Airport continuing on its strong expansion path, with more air-services capacity and passenger volumes than ever before. The new Jetstar services announced in July 2010 between Auckland and Cairns, and between Queenstown and Australia also provide useful examples of how the multi-airport strategy might work to drive passenger numbers and earnings growth.



Q A

Simon Robertson

Chief financial officer

What are your responsibilities?
I commenced as the Auckland Airport chief financial officer in August 2009. I am responsible for managing our corporate strategy and financial affairs.

How long have you been at Auckland Airport and what is your background?
I joined in early 2005 and have held a number of senior roles in my time with Auckland Airport. I have experience in the manufacturing, entertainment and marine sectors, with strong financial, treasury and strategic expertise.

What are your qualifications?
I hold a Bachelor of Commerce from the University of Auckland, I am a member of the Institute of Finance Professionals New Zealand and a Chartered Accountant.

The flight path ahead

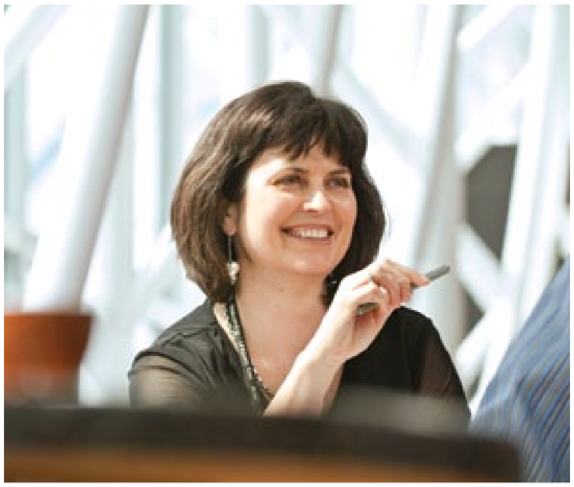
The flight path ahead has fewer signs of turbulence than it did this time last year. However, there are still many challenges to fly through.

Growth in trade and tourism is critical to New Zealand. It will drive our future global economic competitiveness as a nation and our high-value innovation and export sectors. And growth in aviation links has a catalytic impact on economies, enabling trade, tourism and productivity improvements and delivering billions of dollars in direct economic benefit from international visitors.

> "Tourism New Zealand has now identified growth in air linkages to New Zealand as a key priority in meeting their national tourism goals."

Globally, the recovery in travel demand has been driven to a significant extent by airlines with strong growth orientations and/or with good connections to growth economies.

The rising confidence of growth-oriented carriers worldwide is characterised by their forward aircraft orders. With most of these new-generation aircraft earmarked for the fastest-growing markets, it is important that, as they come into service, we get more of them flying to New Zealand and that, through new and existing airline connections, we grab a larger share of growth economy tourism, especially out of Asia. We also need to retain our share of traditional markets and maintain strong incumbent airlines as part of a sustainable and balanced mix of markets and airlines.



Q A

Judy Nicholl

General manager human resources

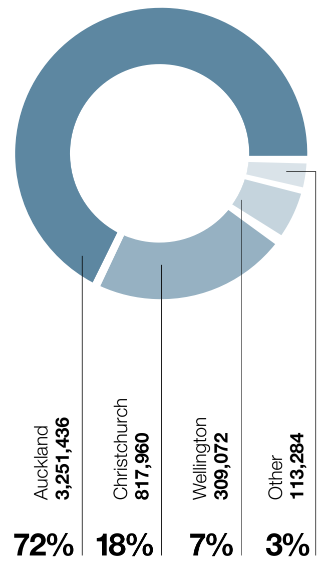
What are your responsibilities?
I am responsible for developing and implementing HR initiatives that drive the business forward. These include sharp systems and processes to support managers and employees in the delivery of high-performance outcomes.

How long have you been at Auckland Airport and what is your background?
I joined the airport in 2006. I have a diverse background in human resources within both the public and private sectors.

What are your qualifications?
Bachelor of Education, Waikato University, Trained Teachers Certificate, Diploma in Teaching, and a Master of Educational Management from the University of Auckland (first-class honours).

International arrivals by New Zealand airports

Jul 09 – Jun 10



Source: Statistics New Zealand

Industry rebounding

The International Air Transport Association (IATA) announced in late July 2010 international scheduled traffic statistics for June which showed continued strong demand growth as the industry recovers from the impact of the global financial crisis.

Compared to June 2009, international passenger demand in June 2010 was up 11.9 percent while international scheduled freight traffic showed a 26.5 percent improvement. Asia-Pacific carriers recorded the most significant demand improvement at 15.5 percent. China continues to be the region's growth engine. Passenger volumes are now 1-2 percent above the pre-recession peak in the first quarter of 2008.

Glenn Wedlock

General manager aeronautical business development

What are your responsibilities?
I am responsible for developing and growing new and existing commercial relationships with airline, trade and tourism customers, covering both passenger and freight activities.

How long have you been at Auckland Airport and what is your background?
I joined Auckland Airport in January 2009. Prior to that, I was CEO of Southern Hemisphere Proving Grounds and Mitre Peak Cruises. I have previously worked with Infratil Airports in Europe and at Christchurch International Airport. I also serve on the Board of Tourism Auckland.

What are your qualifications?
I hold a Bachelor of Business Studies.

Q A

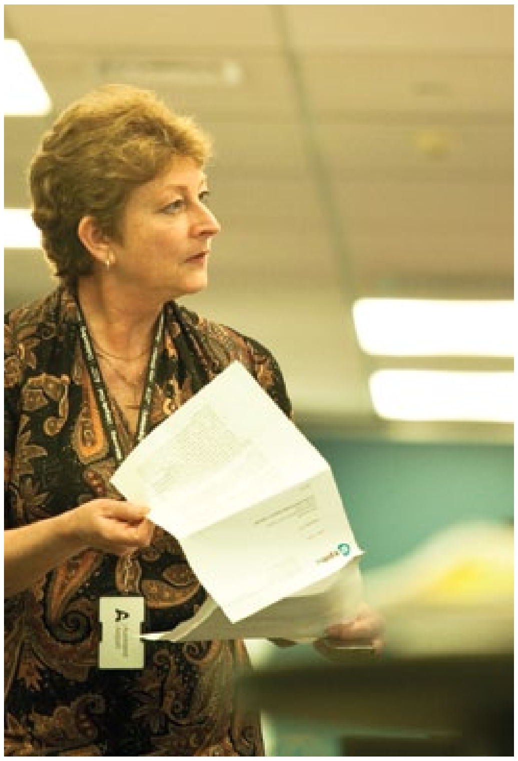
Mary-Anne Powell

Executive assistant to CEO and office manager

What are your responsibilities?
I provide executive assistance to the CEO and manage the corporate office.

How long have you been at Auckland Airport and what is your background?
I joined Auckland Airport in 2008, and have over 20 years' experience in executive assistance and office management. Prior to joining, I held senior EA roles with Telecom, Progressive, Air New Zealand and the Auckland DHB.

What are your qualifications?
Diploma in Management, Diploma in Teaching, a New Zealand Diploma in Business, and a Bachelor of Business.



If we don't succeed in these goals, as a country we risk falling behind our competitor destinations. By working with a range of airlines, including a strong national carrier and airlines that have reach into growth economies, Auckland Airport can play an important part in maximising New Zealand's future economic growth.

It is also important that we continue to adapt to aviation trends. The last year alone has seen many changes in routes, fleets and frequency. We expect the next few years to see further rapid expansion of growth-oriented airlines, the introduction of new aircraft types supporting longer, thinner routes and an increasing democratisation and commoditisation of travel. These trends will continue to influence current airline business models.

New-generation aircraft in particular, such as the 'hub-busting' 787 Dreamliner, will have an impact on tourism, by offering airlines and airports greater range, and opening up the possibilities of new routes that may not have been viable previously.

As we succeed in capturing our share of this growth, we must also become more efficient. We intend to continue to leverage our core competencies and competitive advantages to grow our business, and use optimisation methodologies to increase our operational effectiveness, improve the passenger experience and reduce our unit costs.

Stakeholder and shareholder alignment with our strategy will be important also in the year ahead. In November 2010, the new Auckland Super City will be formally established, effectively consolidating our two largest shareholdings into one. We have already begun relationship-building with the incoming Auckland City executive team to ensure that our strategy is well understood and supported.

The Commerce Commission is expected to deliver its final determination on a regulatory framework for major airports in New Zealand by the end of the calendar year. We look forward to the completion of this process and to having a clear understanding between airports and airlines on regulation and on investment incentives. It is essential for New Zealand that airports continue to have appropriate incentives to provide the capacity necessary to support our country's ambitions to grow trade and tourism.

Also, the coming year will see final preparations for Rugby World Cup 2011. As the airport where the majority of fans and players will arrive or depart, Auckland Airport is already well into its preparations, and is committed to being ready to play its part in this global event and ensuring we all do what we can to make each journey better.

“We are determined to help provide a wonderful New Zealand experience for the estimated 85,000 fans, players and officials coming to our shores. These additional numbers will provide another peak period for the airport during the shoulder season and will help drive our business during the 2012 financial year.”

Outlook

With our plan beginning to deliver results, our underlying profit during 2010 (while still relatively flat at $105.1 million) is ahead of where we expected it to be, and with the business fundamentally restructured, Auckland Airport is well positioned to benefit in 2011 and beyond from the operating leverage we have been able to set up.

> "It's all about having a determination to make a difference for New Zealand, and a determination to make journeys better for our passengers."

IATA is forecasting a more promising 2011 for the aviation sector but recommends caution. This is combined with a global economic outlook that, while improving, remains fragile. As additional air-services capacity comes on-stream, supported by improving global economic conditions and aviation industry fundamentals, we should see increased passenger volume and yield.

Our retail and property businesses are set for a better year as the first-floor redevelopment is completed, duty free operators focus on sales execution and our active portfolio of investment property developments are completed and opened.

In relation to governance matters, the board of Auckland Airport has worked to ensure strong succession planning is in place for directors.

Two new directors were appointed to the board in September 2009 and confirmed by shareholders at the 2009 Annual Meeting. Sir Henry van der Heyden and James Miller bring a wealth of experience and skills which complement those of their fellow directors. We have also determined that the appointment of a director with significant airline experience would be the greatest value-add to our board. A process to identify and appoint an appropriate candidate is underway.

Joan Withers has been identified as the successor to Tony Frankham as chair of the board. Joan has been chair of the Audit and Risk Committee for the last two years and has the full support of the board. In May 2010, Lloyd Morrison returned to the board following a leave of absence for health reasons. The board was delighted to welcome Lloyd back and we are once again enjoying the benefits of his commercial acumen and vision.

On the management side, the executive leadership team has remained stable throughout the year and remains committed to delivering on our goals. A wider leadership group within the company has commenced a skills-development programme that will further strengthen our internal capability.

The board is optimistic about the 2011 financial year and expects net profit after tax (excluding any fair value changes and other one-off items) to be in the range of $112.0 million to $118.0 million, assuming international passenger growth in the order of 5.0 percent, and capital expenditure to be around $85.0 million, excluding yet-to-be committed property development.

As always, this guidance is subject to any other 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. A

TONY FRANKHAM

Chairman
(on behalf of the board)

SIMON MOUTTER

Chief executive

TONY FRANKHAM

Auckland Airport Chairman

Leaving the airport in great shape.

Chairman Tony Frankham retires from the board at this year's annual meeting. Tony joined the board in 1994 and has served Auckland Airport and New Zealand tourism with distinction. He became chairman in 2007.

During Tony's 16 years, Auckland Airport has grown and evolved significantly. We have been publicly listed, passenger numbers have almost doubled from 6.8 million to 13.4 million, construction of a second runway has commenced, we have been the subject of high-profile ownership bids, a second international pier has opened, additional inbound international processing capacity has been built and commercial relationships with a much wider group of airlines has been developed.

In addition, strategic partnerships with complementary airports have been formed, our property assets have been considerably developed, we have been consistently recognised as one of the best airports in the world and we are contributing enormously to New Zealand tourism and trade.

Tony leaves Auckland Airport in great shape. The board remains cohesive, stable and committed to delivering on our strategic goals, and the company is poised for long-term success.

Directors, management and staff thank Tony for his exemplary service and leadership over the last decade and a half. We wish Tony and his family all the best.

Meet the board

The board of directors of Auckland Airport have been cohesive and committed in setting goals and aspirations for Auckland Airport as a proactive driver of New Zealand tourism, trade and economic growth.

1

Tony Frankham

Director, Chairman

Member Audit and Risk, Remuneration and Nominations Committees

Tony was appointed a director of the company in 1994 and chairman in November 2007. A former partner in the New Zealand firm of Deloitte, he established his own specialist financial consulting practice in 1992. Tony is chairman of New Zealand Experience Limited. He is a former director of 14 listed companies, and was chairman of four of these. His previous directorships include Capital Properties New Zealand Limited, Direct Capital Partners Limited, New Zealand Oil & Gas Limited, Otter Gold Mines Limited, Vertex Group Holdings Limited and Wilson & Horton Limited. Tony is a life member and past president of the New Zealand Institute of Chartered Accountants, and a former member of the Takeovers Panel, the Securities Commission and the Council of the International Federation of Accountants. He retires by rotation at this year's annual meeting and after 16 years on the board has decided not to seek re-election.

2

John Brabazon

Director, Member

Member Audit and Risk Committee

John was appointed a director of the company in 2007. He is an executive director of boutique Merchant Bankers DBB Capital Limited and has over 26 years' experience in the capital markets, including eight years with Brierley Investments Limited. His other directorship is as the co-founder and president of Kern River Oil Corporation in the United States. His former directorships include seven companies with total assets of NZ$1.7 billion. He is a member of the New Zealand Institute of Chartered Accountants, an accredited director of the Institute of Directors in New Zealand Inc, and a fellow of the Financial Services Institute of Australasia.

3

Richard Didsbury

Director, Member

Member Audit and Risk, and Nominations Committees

Richard was appointed a director of the company in November 2007. He is a graduate in Engineering from the University of Auckland. He was a co-founder of the Kiwi Income Property Trust in 1992; the Trust is now the largest property vehicle listed on the NZX, and Richard remains a director of that company. Within the Trust, he led the Sylvia Park project team which successfully completed New Zealand's biggest retail development. Richard is also a trustee of Tourism 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, has been and will continue to be of value to the company as it grows its property development activities.

4

Sir Henry van der Heyden

Director, Member

Member Remuneration Committee

Sir Henry was appointed to the board in 2009. He has served as chairman of Fonterra since 2002 and been involved in dairy industry governance for about 20 years, both as a director and chairman – leading the evolution of the cooperative's capital structure. Sir Henry is a director of King St Advertising Limited, Independent Egg Producers Limited, Northern Feed Mill Limited, Elevation Capital Limited, Manuka SA Limited and Pascaro Investments Limited. He is a member of Rabobank's Food Agribusiness Advisory Board of Australia. Sir Henry was honoured with a Distinguished Companion of the New Zealand Order of Merit in 2009 in recognition of his services to agriculture.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James Miller

Director, Member

Member Audit and Risk Committee

James was appointed to the board in 2009. He has spent 15 years working in the share-broking industry. During this time he has specialised in the strategy and valuation of airport and utility companies. Specifically, James had a leading role in the valuation and global pre-marketing of the Auckland International Airport, Beijing Capital International Airport, Contact Energy and Vector IPOs. 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 New Zealand Stock Exchange, an accredited director of the Institute of Directors in New Zealand Inc and is a graduate of The Advanced Management Program, Harvard Business School (USA). James is a director of Vector and Craig's Investment Partners. He was previously on the ABN AMRO Securities board, INFINZ board, and Financial Reporting Standards board.

6

Lloyd Morrison

Director, Member

Member Remuneration and Nominations Committees

Lloyd was appointed a director of the company in November 2007. He is one of New Zealand's most experienced infrastructure investors and managers. He founded NZX-listed Infratil in 1994 to invest in infrastructure 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, downstream oil and public transport sectors. Lloyd is an executive director of Infratil, chairman of HRL Morrison & Co which, in addition to Infratil, manages infrastructure investments for the New Zealand Superannuation Fund and other pension funds, chairman of Infratil Airports Europe and a director of TrustPower and Fisher Funds. In respect of airport companies, he has board experience with airport companies in New Zealand, Australia, USA, UK and Continental Europe.

7

Dr Keith Turner

Director, Deputy Chairman

Chair Remuneration Committee, Chair Nominations Committee

Keith was appointed as a director of the company in 2004. He has long experience in the electricity industry. He was founding chief executive for Meridian Energy following the break-up of ECNZ, holding the role for nine years. He is a director of Spark Infrastructure Limited, an ASX-listed company. He is also a director of ETSA Utilities (South Australia) and Citi Power and Powercor (Victoria), operating companies under Spark and CKI ownership. He also holds a number of small entrepreneurial board positions and undertakes international consulting activities.

8

Joan WIthers

Director, Chair

Chair Audit and Risk Committee, Member Remuneration and Nominations Committees

Joan was appointed a director of the company in 1997. She has spent over 25 years working in the media industry, holding CEO positions in both newspapers and radio, and has been a professional director for 11 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. Joan is also chair of Mighty River Power Limited, a director of TVNZ Limited, and a trustee of The Tindall Foundation and Sweet Louise.

A look at the numbers

This section provides an overview of the financial results and key trends for the year ended 30 June 2010 compared with previous financial years.

Financial overview

When the 2010 financial year commenced, Auckland Airport was facing unstable global travel demand and the passenger growth outlook was uncertain. Our guidance for underlying profit after tax (excluding fair value changes and other one-off items) was $93.000 million to $100.000 million, below the $105.891 million achieved the previous year. The focus for the company was to stimulate passenger volume, manage yield, assess options for growth investment, efficiently manage cost and capital expenditure, continue to participate in the setting of a sensible regulatory pathway and put further effort into our commercial relationships with airlines.

We believe we have accomplished many of our goals in the 2010 financial year, enabling the achievement of an underlying financial result above initial expectations and in line with the prior year. We have also created a platform for improved financial results for the 2011 financial year and beyond.

This financial report for 2010 provides an overview of the financial results and key trends for the year ended 30 June 2010, compared with those of the previous financial year. It also provides a summary of the company's financial position, capital expenditure programme, financing sources and key performance indicators. 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.

Results overview

	2010 $m	2009 $m	% change
Financial performance			
Income	363.113	368.295	–1.4
Expenses	86.802	88.881	–2.3
Earnings before interest, taxation, depreciation, fair value adjustments and investments in associates (EBITDAFI)	**276.311**	**279.414**	**–1.1**
Share of profit of associates	0.098	0.949	–89.7
Investment property fair value gain/(loss)	9.469	(64.586)	–114.7
Earnings before interest, taxation and depreciation (EBITDA)	**285.878**	**215.777**	**32.5**
Depreciation	55.736	54.766	1.8
Interest	71.938	75.590	–4.8
Deferred tax adjustment on buildings	84.404	-	-
Taxation expense	44.106	43.696	0.9
Reported profit after tax	29.694	41.725	–28.8
Underlying profit after tax	**105.051**	**105.891**	**–0.8**
Underlying earnings per share			
- cents per share	8.35	8.65	–3.5
Ordinary dividends			
- cents per share	8.20	8.20	-
- amount	107.156	100.459	6.7
Financial position			
Shareholders' equity	1,913.634	1,841.147	3.9
Total assets	3,262.058	3,088.149	5.6
Capital expenditure	54.290	87.593	–38.0

We have created a platform for improved results for the 2011 financial year and beyond.

Income, excluding share of profit from associates, was $363.113 million (2009: $368.295 million), a decrease of 1.4 percent. The decrease was largely due to lower retail income. The retail income in the prior year benefited from higher income from duty free operator DFS, as a proposed sole duty free operator with the trading benefits of scale and product range available through that model. In 2010, retail income was lower following a renegotiation with DFS to efficiently secure space for a second duty free operator and due to disruption caused by the construction work in the departures area of the international terminal building.

One of our strategic themes focuses management on ensuring the company is 'fighting fit' by optimising operating costs. This contributed to a 2.3 percent decrease in expenses excluding depreciation, interest and taxation to $86.802 million (2009: $88.881 million).

The company reports its results under New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS"). Under NZ IFRS, changes in the fair value of the company's investment properties are recorded in the income statement. There was an increase in the valuation of the company's investment property portfolio of $9.469 million, compared with a decrease in valuation of $64.586 million for 2009.

Movements in investment properties are non-cash adjustments, and will not affect dividends to shareholders.

Another large non-cash adjustment for the 2010 financial year is the one-off deferred tax adjustment on buildings of $84.404 million. This is a consequence of the new tax legislation announced in the 2010 government budget which removes the ability to depreciate building structures for income tax purposes when the life of the building is greater than 50 years. The increase in the deferred tax liability represents the forfeiture of all of the future depreciation tax deductions with no discount to reflect the time value of money even for effects that are more than 50 years from today.

The reported profit after tax for the 2010 financial year was $29.694 million (2009: $41.725 million). However, the underlying profit after tax, before the effects of the deferred tax adjustment on buildings and the impact of the revaluation of investment property has remained stable at $105.051 million (2009: $105.891 million), a 0.8 percent decrease over 2009.

Ordinary dividends in 2010 are 8.20 cents per share, equivalent to the 2009 year.

Capital expenditure reduced to $54.290 million from $87.593 million in 2009 as management focused on reducing or delaying capital expenditure where possible. Management continues to redirect capital expenditure from regulated aeronautical capacity investments to profit-orientated commercial investments. Major capital expenditure projects in 2010 included the international terminal building first floor retail development ($24.286 million) and property projects ($11.930 million).

Total assets as at 30 June 2010 increased $173.909 million to $3,262.058 million, largely as a result of the investment in North Queensland Airports Limited in January 2010 (which has a value as at June 2010 of $159.091 million) and an increase in investment property of $22.594 million due to additional investment and the positive revaluation. These increases in assets were offset by a decrease in property, plant and equipment of $14.745 million in the 2010 financial year due to depreciation exceeding capital expenditure.

Shareholders' equity increased $72.487 million to $1,913.634 million, driven by the increase in equity through the entitlement offer for new shares in February 2010 and the Dividend Reinvestment Plan in March 2010 and offset by the increase in deferred tax liability from the one-off deferred tax adjustment on buildings of $84.404 million.

Passenger volumes	2010	2009	% change
Passenger movements			
International arrivals	3,260,315	3,193,443	2.1
International departures	3,287,375	3,200,144	2.7
International passengers excluding transits	6,547,690	6,393,587	2.4
Transit passengers	868,102	966,024	–10.1
Total international passengers	**7,415,792**	**7,359,611**	**0.8**
Total domestic passengers	**6,032,410**	**5,598,077**	**7.8**
Total passenger movements	**13,448,202**	**12,957,688**	**3.8**

2.1%

increase in international arrivals

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 the retail opportunities within the terminals.

In the 2010 year, total passenger movements were 13,448,202, an increase of 3.8 percent over the 2009 year. International passenger movements, excluding transit passengers, increased by 2.4 percent in 2010, due to an improvement in global economic conditions, strong Australian visitor arrivals and promotional activity to support and grow existing airline traffic. After declining throughout much of the 2009 financial year, international passenger numbers rebounded during 2010. Consistent passenger growth commenced from September 2009 with the exception of April 2010 which saw a flat growth result year on year due to the Iceland volcanic ash cloud in Europe impacting worldwide air traffic in that month.

Domestic passenger movements increased by 7.8 percent in 2010, largely driven by the introduction of Jetstar services replacing Qantas and assisting with lifting passenger numbers with lower airfares and strong competition from the Air New Zealand Group and Pacific Blue on main trunk routes.

Subsequent to the end of the financial year, Pacific Blue announced their withdrawal from the New Zealand domestic aviation market in October 2010. While the company is disappointed that Pacific Blue will no longer participate in domestic services, the company believes that there is enough travel demand and growth potential in the domestic market to provide other airlines with the business case to take up the capacity left by Pacific Blue.

New Zealanders and Australians, based on country of last permanent residence, collectively made up 65.6 percent of international passenger arrivals at Auckland Airport, an increase from 64.2 percent over the prior year. The strongest international passenger growth came from Australia, with an increase of 10.1 percent – almost 58,000 more arrivals. The increase in Australian arrivals reflects increased seat capacity, route development and marketing campaigns driving passenger demand.

International passenger growth also came from India (4.5 percent), Germany (4.3 percent) and United States of America (1.2 percent). Asia combined also contributed 0.6 percent passenger growth, including Hong Kong which saw an increase of 13.3 percent.

With the notable exception of Germany, Europe was the hardest hit market by the global economic conditions for international arrivals. European arrivals declined 3.6 percent to represent 10.3 percent of total arrivals (10.9 percent in 2009). This reduction was largely driven by the United Kingdom which decreased 7.3 percent.

Looking forward to 2011, our expectations are for international passenger numbers at Auckland Airport to continue to grow, reflecting ongoing recovery from the global financial crisis as well as the impact of growing airline capacity. Domestic passenger numbers are also expected to provide growth, but at a slower rate than that achieved during 2010.

The largest categories by purpose of visit remain holidays (23.1 percent) and visiting friends and

Passengers arriving at Auckland by country

Country of last permanent residence	2010 arrivals	%	2009 arrivals	%	% change
New Zealand	1,498,484	46.1	1,466,236	46.1	2.2
Australia	633,228	19.5	575,249	18.1	10.1
United Kingdom	209,407	6.4	225,786	7.1	-7.3
United States of America	155,056	4.8	153,230	4.8	1.2
People's Republic of China	101,246	3.1	104,721	3.3	-3.3
Japan	62,567	1.9	62,174	2.0	0.6
Germany	51,319	1.6	49,189	1.5	4.3
Korea	48,346	1.5	49,272	1.5	-1.9
Canada	41,673	1.3	41,705	1.3	-0.1
India	26,453	0.8	25,308	0.8	4.5
Hong Kong	23,001	0.7	20,302	0.6	13.3
Fiji	22,184	0.7	26,851	0.8	-17.4
Netherlands	19,406	0.6	20,190	0.6	-3.9
Samoa	18,253	0.6	20,495	0.6	-10.9
South Africa	14,338	0.4	20,922	0.7	-31.5
Other	326,475	10.0	319,055	10.0	2.3
Total	**3,251,436**	**100.0**	**3,180,685**	**100.0**	**2.2**

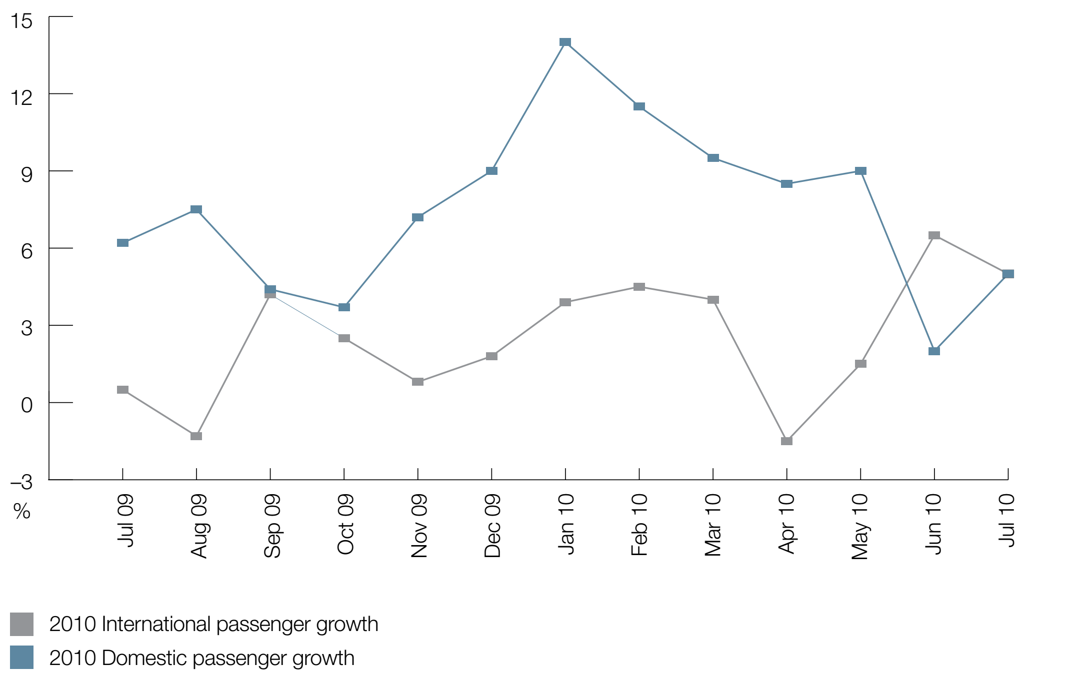
Source: Statistics New Zealand

relatives (17.6 percent). The diverse nature of Auckland Airport's overseas arrivals purpose of visit of leisure, business and family, combined with a strong origin traffic base (New Zealand outbound) and the attractiveness of New Zealand's destinations, provides Auckland Airport with a robust base for passenger volumes.

Total aircraft movements were 154,971, a decrease of 1.2 percent over 2009. International aircraft movements increased by 4.8 percent, while domestic aircraft movements decreased by 3.2 percent.

The company's airfield income is determined from the MCTOW (maximum certificated take-off weight) of aircraft landing at Auckland Airport. The total MCTOW was 5,670,900 tonnes, a decrease of 3.1 percent from 2009. Total international MCTOW decreased by 3.7 percent due to airlines utilising smaller aircraft, notwithstanding more frequent flights. Total domestic MCTOW decreased by 1.5 percent due to airlines having less frequent flights, notwithstanding utilising larger aircraft.

Passenger growth rates 2010



Overseas visitor arrivals by purpose of visit

Purpose of visit	2010	2009	% change	% of total
Business/Conference	455,027	451,161	0.9	14.0
Holiday/Vacation	750,406	730,327	2.7	23.1
Education/Medical	80,245	79,530	0.9	2.5
Visit friends/relatives	572,283	552,583	3.6	17.6
Other (including not stated/not captured)	1,393,475	1,367,084	1.9	42.9

Source: Statistics New Zealand

Aircraft volumes	2010	2009	% change
International aircraft movements	42,697	40,756	4.8
Domestic aircraft movements	112,274	116,032	–3.2
Total aircraft movements	**154,971**	**156,788**	**–1.2**
MCTOW (maximum certificated take-off weight) (tonnes)			
International MCTOW	3,923,988	4,075,946	–3.7
Domestic MCTOW	1,746,912	1,774,079	–1.5
Total MCTOW	**5,670,900**	**5,850,025**	**–3.1**

Financial performance

Income	2010 $m	2009 $m	% change
Airfield income	66.715	70.458	–5.3
Passenger services charge	73.252	66.542	10.1
Terminal services charge	27.814	27.470	1.3
Retail income	95.817	105.316	–9.0
Rental income	48.533	47.975	1.2
Car park income	31.057	29.377	5.7
Interest income	1.678	2.611	–35.7
Other income	18.247	18.546	–1.6
Total income	**363.113**	**368.295**	**–1.4**

Airfield income

As noted above, airfield landing charges are based on the MCTOW of aircraft. Airfield income was $66.715 million, a decrease of $3.743 million (5.3 percent) over 2009. The decrease is mainly due to the lower MCTOW in the financial year in both international and domestic routes (total decrease of 3.1 percent), with this reduction concentrated in the higher revenue per tonne weight-bracket (aircraft of 40 tonnes MCTOW and above).

Also, Auckland Airport had a price schedule established in 2007 which included an increase in landing charges from 1 July 2009. Auckland Airport elected to delay the increase in domestic landing charges and decrease the international landing charges from 1 July 2009 to 1 March 2010 to assist the airline industry and New Zealand tourism during difficult trading conditions in the wake of the global financial crisis. The scheduled price increases for both the domestic and international landing charges were put in place from 1 March 2010.

The effect of the domestic price increase deferral and the international price decrease was to lower airfield income by $2.687 million (3.9 percent) from what it would have been if prices had increased from 1 July 2009 as per the 2007 price schedule.

Passenger services charge

The passenger services charge (PSC) is levied on airlines for departing and arriving international passengers (excluding transits) aged 12 years old and over and provides part of the company's return on its aeronautical assets. The PSC levy for the 2010 period was $12.00 excluding GST, for both departing and arriving travellers (2009: $11.56 excluding GST).

PSC income was $73.252 million, an increase of $6.710 million (10.1 percent) over the previous year. This increase was driven by the growth in international passenger volumes combined with the increase in the PSC levy from 1 July 2009 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 was $27.814 million, an increase of $0.344 million (1.3 percent) over 2009.

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 $95.817 million, a decrease of $9.499 million (9.0 percent) over 2009.

Retail income per international passenger (including transits) was $12.92 in the 2010 year, compared with $14.31 in 2009 and $13.19 in 2008. The decrease primarily reflects lower revenue from duty free operator DFS as a consequence of the change from the singleoperator model to the dual-operator model coupled with the phased introduction of JR Duty Free as the second operator during the course of 2010.

Retail income has also been affected by the higher value of the New Zealand dollar compared with the previous year and disruption caused by construction work in the international terminal departure areas both landside and airside to create an improved retail experience from December 2010. This disruption will likely continue for part of the 2011 financial year as the project draws to completion, but not to the same extent as was the case in 2010. Passenger spend rates are expected to improve in 2011.

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 $48.533 million, an increase of $0.558 million (1.2 percent) over 2009. This was largely due to positive rent reviews completed in the period, partially offset by a warehouse vacancy.

Car park income

At 30 June 2010, the company had parking facilities for 7,988 cars, compared with 8,188 parks at 30 June 2009. During the year, 200 parking spaces adjacent to the international terminal were removed due to the development of the Novotel hotel. Despite this reduction in car park facilities, car park income increased 5.7 percent to $31.057 million, from $29.377 million in 2009.

In an increasingly competitive parking environment, car park income has maintained good growth. This growth has been driven by a significant increase in promotional activity, a reconfiguration of products including a full year of Park and Ride facilities and passenger growth. The launch of our new online booking capability in May 2010 and attractive promotional pricing has been particularly well received by customers. In addition, our off-terminal Park and Ride facility has continued to grow strongly after commencing operations in January 2009.

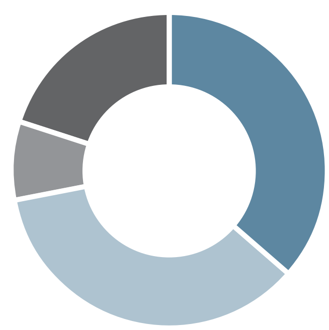
Other income

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 $18.247 million, a decrease of $0.299 million (1.6 percent) over the previous year. This is primarily due to telecommunication establishment fees of $0.267 million received in the prior year.

2010 Income by source

- Other income 4.8%
- Airfield income 18.4%
- Passenger services charge 20.2%
- Terminal services charge 7.7%
- Retail income 26.4%
- Rental income 13.4%
- Car park income 8.6%
- Interest income 0.5%

2010 Expenses by category



- Staff 36.4%
- Asset management, maintenance and airport operations 35.7%
- Rates and insurance 8.1%
- Other 19.8%

Expenses

	2010 $m	2009 $m	% change
Staff	31.574	34.337	–8.0
Asset management, maintenance and airport operations	30.948	30.158	2.6
Rates and insurance	7.035	6.845	2.8
Other	17.245	17.541	–1.7
Total expenses	**86.802**	**88.881**	**–2.3**

2.3%

reduction in total expenses

Expenses

Total expenses (excluding depreciation and interest) were $86.802 million, a decrease of $2.079 million (2.3 percent) over the 2009 year.

In 2009, staff costs were impacted by $4.195 million for restructuring and the transition to a new management team. The reduction in permanent staff levels and the change in organisational structure were consistent with the change in business strategy. Further restructuring costs of $1.072 million were incurred in the 2010 financial year as some parts of the reconfiguration were completed.

Asset management, maintenance and airport operations expenses include utilities which were up $0.790 million mainly due to increased electricity energy cost, water and waste water costs and a greater volume of consumption mostly related to Pier B (opened in October 2008). Operating management fees increased $0.468 million mainly due to the full-year impact of Park and Ride management fees.

Manukau City Council and Auckland Regional Council rates increased by $0.200 million year on year due to their increases in rates and increased rating valuations (2010 rates used 2008 valuations whereas 2009 rates used 2005 valuations).

Savings of $3.040 million were achieved in the area classified as 'other' but these savings were mostly redirected by increasing the expenditure in marketing, promotions and public relations by $2.744 million on a number of air-services development, retail, carparking and property promotions.

EBITDAFI and EBITDAFI margin

EBITDAFI (earnings before interest, taxation, depreciation, fair value adjustments and investments in associates) was $276.311 million, a decrease of $3.103 million (1.1 percent) over 2009. The EBITDAFI margin was 76.1 percent in 2010, an increase from 75.9 percent in 2009, reflecting the reduction in operating expenses achieved in 2010.

Share of profit/(loss) from investment in associates

The company partners with the US-based international food and beverage operator, HMS Host Inc, in a joint venture called HMSC-AIAL Limited to operate food and beverage services at the international terminal. The company's share of the surplus after tax was $0.890 million in 2010, a decrease of 6.2 percent over the previous year due to the impacts of construction during the redevelopment of the landside food and beverage area. Subsequent to balance date, Auckland Airport sold its shareholding in HMSC-AIAL Limited to Host International Limited for $8.022 million and entered into a new concession agreement with HMSC-AIAL Limited on normal commercial terms for a food and beverage operator at the international terminal.

On 13 January 2010, the company purchased a 24.5 percent stake in North Queensland Airports Limited (NQA), the operator of Cairns and Mackay Airports in Queensland, Australia, for AU$132.800 million (NZ$166.700 million). The company's share of NQA's net loss after tax for the period January 2010 to June 2010 was NZ$0.792 million. This period forms the low season of the Cairns destination and was marginally better than that stated in our business case for this period. Auckland Airport's share of the dividend declared by NQA at 30 June 2010 was NZ$3.687 million and this was substantially ahead of our bid case assumption. It is expected that cash dividends will be stronger than reported profits in the medium term.

The investment in NQA assumes that NQA is at a low point in its passenger volumes and passenger numbers will be able to grow strongly with the assistance of Auckland Airport. Since January 2010, further domestic and international airline seat capacity has been added or announced adding over 800,000 additional seats annually to/from Cairns or Mackay. The increase in capacity has started to show in passenger numbers at Cairns. In June 2010, domestic passengers increased 10.0 percent and international passengers increased 29.0 percent compared with June 2009. Subsequent to year end, July 2010 domestic passenger numbers increased 5.0 percent and international passengers increased 18.0 percent compared with July 2009.

Investment property portfolio

The 2010 revaluation of the investment portfolio resulted in an increase of $9.469 million. The increase was primarily based on the addition of new assets to the portfolio and improvements in the capitalisation rates as a result of the extension of existing lease terms. The increase in the value of the investment property is a non-cash adjustment and compares to a valuation decrease of $64.586 million in 2009 and a $13.721 million increase in 2008.

The fair value of investment property for each reporting period is determined by independent valuers at the request of the directors.

Depreciation

Depreciation expense was $55.736 million, an increase of $0.970 million (1.8 percent) over the previous year. This relatively small increase reflects the modest level of capital expenditure in the period.

Interest

Interest expense and other finance costs were $71.938 million, a decrease of 4.8 percent over 2009. The average borrowing interest rate was 6.8 percent compared with 7.5 percent in 2009. The decrease in average borrowing rate is a result of falling interest rates and fixed rate interest rate swaps maturing during the period and rolling on to lower floating interest rates. Total borrowings were $1,091.998 million as at 30 June 2010, compared with $1,076.705 million as at 30 June 2009, with cash on hand of $36.052 million compared with $34.320 million a year earlier.

Taxation

During the financial year 2010, as part of the New Zealand government budget, there was a change in tax legislation which removes the ability to depreciate building structures for income tax purposes when the life of the building is greater than 50 years. This has resulted in a one-off, non-cash accounting adjustment in the 2010 financial year increasing Auckland Airport's deferred tax liability and deferred tax expense. While the increase in deferred tax liability and expense is $84.404 million, there is no impact on the company's underlying profitability. In effect, the accounting charge represents 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.

Moving forward, Auckland Airport expects the reduction in the corporate tax rate from 30.0 percent to 28.0 percent from the 2011 financial year to broadly offset a higher cash tax expense resulting from the removal of depreciation deductions on long-lived buildings.

Excluding the one-off deferred tax adjustment on buildings of $84.404 million, taxation expense was $44.106 million for the 2010 financial year, compared to taxation expense of $43.696 million in 2009.

Underlying profit

Auckland Airport believes underlying profit is the best measure of continued year-on-year performance as this allows for a more comparable performance measure between years. Adjusting for one-off items and non-cash fair value changes, underlying profit for the 2010 financial year was $105.051 million, a decrease of 0.8 percent from the 2009 financial year.

Underlying profit for the 2010 financial year adjusts the profit after tax of $29.694 million for deferred tax adjustment on buildings of $84.404 million, investment property revaluation increase of $9.469 million and the tax effects of these adjustments. Underlying profit in the 2009 financial year adjusts the profit after tax of $41.725 million for the investment property revaluation decrease of $64.586 million, restructuring costs of $4.195 million and the tax effects of these adjustments.

Earnings per share on underlying profit were 8.35 cents per share in 2010, compared with 8.65 cents per share in 2009 reflecting the increase in shares on issue from the issue of new shares in the equity raise during 2010.

North Queensland Airports

	Actual results FY10	Forecast FY10 baseline (published 7 July 2010)
Domestic passenger volume (Cairns and Mackay Airports)	3,911,158	3,920,000
International passenger volume (Cairns Airport)	563,980	560,000
Operating EBITDA	AU$45.556 million	AU$45.000 million
Non-aeronautical revenue	AU$30.234 million	AU$29.800 million

3.91 million
domestic passengers

Dividends

Total ordinary dividends for the 2010 financial year will amount to 8.20 cents per share (equivalent to last year) or $107.156 million in total. Excluding one-off items and changes in the fair value of the company's investment properties, this equates to a dividend pay-out ratio of 102.0 percent of underlying profit, compared with 94.9 percent in 2009. The justification for the higher pay-out ratio for 2010 is that the board is optimistic about the 2011 financial year, as reflected in the profit guidance.

The formal dividend pay-out policy remains at 90.0 percent (excluding changes in the fair value of the company's investment properties). 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.

During the year, Auckland Airport implemented 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 DRP took effect for the first time for the March 2010 dividend payment, and achieved a 30.0 percent acceptance rate.

The final dividend of 4.45 cents per share will be paid on 22 October 2010 to shareholders on the register at the close of business on 8 October 2010. 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.

5.6%

increase in total assets

Cash flow	2010 $m	2009 $m	% change
Net cash inflow from operating activities	176.256	170.078	3.6
Net cash outflow from investing activities	(224.132)	(93.338)	140.1
Net cash inflow/(outflow) from financing activities	49.608	(43.113)	–215.1
Net increase in cash held	**1.732**	**33.627**	**–94.8**

Financial position	2010 $m	2009 $m	% change
As at 30 June			
Non-current assets	3,193.233	3,027.147	5.5
Current assets	68.825	61.002	12.8
Total assets	**3,262.058**	**3,088.149**	**5.6**
Non-current liabilities	1,083.634	924.726	17.2
Current liabilities	264.790	322.276	–17.8
Equity	1,913.634	1,841.147	3.9
Total equity and liabilities	**3,262.058**	**3,088.149**	**5.6**

Cash flow

Net cash inflow from operating activities was $176.256 million, an increase of $6.178 million (3.6 percent) over 2009. This was mainly the result of a decrease in income tax paid of $3.587 million and a decrease in net interest paid of $2.607 million, in line with corresponding movements in the income statement.

Net cash outflow from investing activities was $224.132 million, an increase of $130.794 million (140.1 percent) over 2009. This increase in the outflow is primarily a result of the 24.5 percent investment in NQA in January 2010 of $168.021 million. This increased investment was partially offset by lower capital expenditure in the 2010 financial year.

Net cash inflow from financing activities was $49.608 million, compared to a net cash outflow of $43.113 million in 2009. This reflects the increase in share capital of $138.507 million as a result of the equity raised from the rights issue in February 2010 and the DRP undertaken for the first time for the March 2010 dividend. This increase in share capital was offset by an increase in the cash payment of dividends and lower cash inflow from borrowings in 2010 compared to 2009.

Financial position

As at 30 June 2010, total assets amounted to $3,262.058 million, an increase of $173.909 million (5.6 percent) from 2009. The increase was primarily due to the investment in NQA which is equity accounted as an investment in associates and has a value as at 30 June 2010 of $159.091 million, plus the dividend receivable at year-end of $3.687 million from this investment. A positive revaluation on investment property of $9.469 million also contributed to the increase in total assets.

Shareholders' equity was $1,913.634 million, an increase of $72.487 million (3.9 percent) over 2009. The change is due to the increase in share capital from the equity raise and the DRP, but offset by a decrease in retained earnings in the period.

Gearing (measured as debt to debt plus shareholders' equity) decreased slightly to 36.3 percent, as at 30 June 2010, from 36.9 percent as at 30 June 2009.

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 Standard & Poor's reflects the strength of Auckland Airport and its ability to meet its 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 (equal with Melbourne and Christchurch) of all Australasian airports. The balance sheet is being prudently managed in the current challenging business and financing environment.

Capital expenditure

Category	Amount $m	**Key projects**
Retail	24.286	First-floor redevelopment
Aeronautical	12.256	Airfield slab replacement, noise treatment of houses and schools, northern runway stage one development, final stage of Pier B
Property	11.930	New Avsec office building, Apex car rental, Formule 1 hotel, Avis car rental, other land and property development
Infrastructure and other	5.427	Service delivery enhancements, Novotel hotel enabling works, project JUHI (Joint User Hydrant Installation) upgrade
Carparking	0.391	Online booking system
Total	**54.290**	

The company invested $54.290 million (2009 $87.593 million) during the year, including capitalised interest, in a range of projects to increase future revenues. The 2010 capital expenditure was lower than was the market guidance due to a combination of later timing of the expenditure on some projects underway, lower than planned expenditure on some projects and the elimination of some planned expenditure where other solutions were deemed to provide better overall solutions.

Retail investment of $24.286 million is nearly all related to the international terminal first-floor departure redevelopment, including the international terminal food court and the two new duty free stores in the international departure area.

Aeronautical investments of $12.256 million included airfield concrete slab replacement, noise mitigation, the northern runway stage one development before this project was put on hold and the final stage of Pier B development.

Property investment increased to $11.930 million from $8.823 million in the 2009 financial year, as the new property strategy started to gain momentum. Key projects during the year included the construction of a new office building leased to Aviation Security, the construction of a new Apex car rental facility and the start of the Formule 1 hotel development.

The company currently expects to invest approximately $85.000 million in the 2011 financial year on a range of projects set out in the table below. The estimate excludes any yet-to-be committed property development projects. The majority of the planned capital expenditure investment in 2011 is within Property, and this includes development of the Formule 1 hotel and the New Zealand Food Innovation Centre Manukau. Other capital investments include the completion of the international terminal first-floor redevelopment.

Retail investment of $24.286 million is nearly all related to the international terminal first-floor departure redevelopment.

Category	**Forecast 2011** $m
Property:	
Formule 1 hotel	12
Leonard Isitt Drive office development	8
New Zealand Food Innovation Centre Manukau	8
Other	22
Aeronautical	20
Retail and carparking:	
International terminal first-floor redevelopment	9
Other	4
Infrastructure and other	2
Total capital expenditure	**85**

As a result of the investment in NQA, Auckland Airport now has a foreign currency exposure to the translation of this investment from Australian dollars to New Zealand dollars in its balance sheet.

Borrowings by category

Bank facilities 41.4%

Bonds (fixed and floating) 51.1%

Commercial 7.5%

Financing

As at 30 June 2010, the company's total borrowings were $1,091.998 million, an increase of $15.293 million (1.4 percent) over the previous year. Short-term borrowings with a maturity of one year or less accounted for $206.780 million (2009: $272.998 million), 18.9 percent of total borrowings. The balance of $885.218 million (81.1 percent) comprised senior bonds, floating rate notes and bank facilities with maturities ranging from one to six years.

The company has total bank facilities of $650.000 million, of which $450.000 million was drawn as at 30 June 2010. Total bank facilities include a $225.000 million syndicated cash advance facility of which $175.000 million is drawn, a $275.000 million bank facility which is fully drawn and a $150.000 million standby facility which remained undrawn as at 30 June 2010. The standby facility supports the commercial paper programme (current balance of $81.780 million as at 30 June 2010) and provides liquidity support for general working capital.

During the year, the company raised $25.000 million through a private placement bond issue at a fixed rate of 8.0 percent with a maturity of 10 August 2016 and a further $125.000 million through a retail bond issue at a fixed rate of 7.0 percent with a maturity date of 27 November 2014.

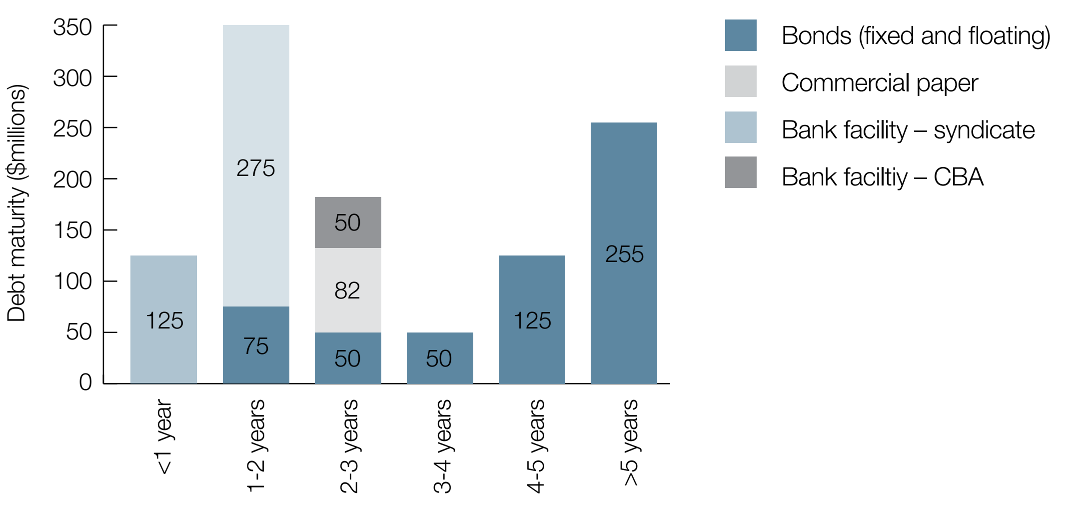
As at 30 June 2010, the company's borrowings include commercial paper totalling $81.780 million, bank facilities totalling $450.000 million and floating and fixed rate bonds totalling $560.218 million.

The company manages its exposure to financial risk on a prudent basis. This is achieved by spreading borrowings over different roll-over and maturity dates, and entering into financial instruments such as interest rate swaps 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 22 of the financial statements.

As a result of the investment in NQA, Auckland Airport now has a foreign currency exposure to the translation of this investment from Australian dollars to New Zealand dollars 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 foreign currency swap 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 foreign currency swap is also taken to the FCTR as a hedge against the movements from the revaluation of the investment.

Debt maturity profile



Key performance indicators

The company actively monitors a range of key performance indicators which includes both financial and operating ratios. The key ratios are set out in the table below. Note that these indicators are adjusted for changes in the fair value of investment properties, one-off items such as the restructuring costs in 2009 and the deferred tax liability change in 2010 to reflect the underlying performance.

Key performance indicators	2010	2009	% change
Financial performance			
Underlying earnings before interest, taxation, depreciation, fair value adjustments and investments in associates (EBITDAFI) margin	76.10%	77.01%	–1.2
Underlying profit after tax return on capital employed	5.60%	5.67%	–1.2
Underlying earnings per share (cps)	8.35	8.65	–3.5
Financial position and gearing			
Debt/Debt plus equity	36.33%	36.90%	–1.5
Debt/underlying EBITDAFI	3.92	3.74	4.8
Underlying EBITDAFI interest cover	3.73	3.57	4.5
Operating efficiencies			
Passengers per operating staff	44,491	41,289	7.8
Operating income per operating staff	$1,201,303	$1,173,566	2.4
Operating income per passenger	$27.00	$28.42	–5.0
Retail income per international passenger	$12.92	$14.31	–9.7
Car park income per passenger	$2.47	$2.45	0.8
Operating staff costs/operating revenue	8.70%	9.32%	–6.7

Simon Moutter
Chief executive

Simon Robertson
Chief financial officer
26 August 2010

The full financials

2010

Income statement

For the year ended 30 June 2010

	Notes	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Income					
Airfield income		66,715	70,458	66,715	70,458
Passenger services charge		73,252	66,542	73,252	66,542
Terminal services charge		27,814	27,470	27,814	27,470
Retail income		95,817	105,316	95,817	105,316
Rental income		48,533	47,975	48,533	47,975
Rates recoveries		2,982	3,210	2,982	3,210
Car park income		31,057	29,377	31,057	29,377
Interest income	5	1,678	2,611	7,865	2,611
Other income		15,265	15,336	15,265	15,354
Total income		363,113	368,295	369,300	368,313
Expenses					
Staff	5	31,574	34,337	31,574	34,337
Asset management, maintenance and airport operations		30,948	30,158	30,948	30,158
Rates and insurance		7,035	6,845	7,035	6,845
Other		17,245	17,541	17,245	17,541
Total expenses	5	86,802	88,881	86,802	88,881
Earnings before interest, taxation and depreciation, fair value adjustments and investments in associates (EBITDAFI)		276,311	279,414	282,498	279,432
Share of profit of an associate	8	890	949	890	949
Share of loss of an associate	8	(792)	-	-	-
Investment property fair value increases/(decreases)	12	9,469	(64,586)	9,469	(64,586)
Earnings before interest, taxation and depreciation EBITDA		285,878	215,777	292,857	215,795
Depreciation	11	55,736	54,766	55,736	54,766
Earnings before interest and taxation (EBIT)		230,142	161,011	237,121	161,029
Interest expense and other finance costs	5	71,938	75,590	71,938	75,590
Profit before taxation		158,204	85,421	165,183	85,439
Taxation expense					
Deferred tax adjustment on buildings	3(c),6	84,404	-	84,404	-
Other taxation expense	3(c),6	44,106	43,696	45,962	43,696
Total taxation expense		128,510	43,696	130,366	43,696
Profit after taxation		29,694	41,725	34,817	41,743

		GROUP 2010 Cents	GROUP 2009 Cents
Earnings per share:			
Basic and diluted earnings per share	10	2.4	3.4

The notes and accounting policies on pages 59 to 112 form part of and are to be read in conjunction with these financial statements.

Statement of comprehensive income

For the year ended 30 June 2010

		GROUP		PARENT	
		2010	2009	2010	2009
	Notes	$000	$000	$000	$000
Profit for the period		29,694	41,725	34,817	41,743
Other comprehensive income					
Tax on the property, plant and equipment revaluation reserve	16	7,862	625	7,862	625
Foreign currency translation reserve	16	(2,347)	-	-	-
Share-based payments	16	11	-	11	-
Share of reserves of associate	8	(1,202)	-	-	-
Cash flow hedges:					
Fair value gains/(losses) recognised in the cash flow hedge reserve	16	(15,323)	(30,230)	(15,323)	(30,230)
Realised (gains)/losses transferred to the income statement	16	20,812	(5,683)	20,812	(5,683)
Tax effect of movements in the cash flow hedge reserve	16	(2,172)	9,521	(2,172)	9,521
Total cash flow hedge movement		3,317	(26,392)	3,317	(26,392)
Total other comprehensive income/(loss)		7,641	(25,767)	11,190	(25,767)
Total comprehensive income for the period, net of tax		37,335	15,958	46,007	15,976

The notes and accounting policies on pages 59 to 112 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 2010

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	Retained earnings $000	Share of reserves of associates $000	Foreign currency translation reserve $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 period		-	-	-	-	-	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	29,694	(1,202)	(2,347)	37,335
Reclassification to retained earnings		-	-	(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)	150,471	(1,202)	(2,347)	1,913,634

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	Retained earnings $000	Share of reserves of associates $000	Foreign currency translation reserve $000	Total $000
At 1 July 2008		170,265	(161,304)	1,630,815	895	4,176	251,786	-	-	1,896,633
Profit for the period		-	-	-	-	-	41,725	-	-	41,725
Other comprehensive income/(loss)		-	-	625	-	(26,392)	-	-	-	(25,767)
Total comprehensive income/(loss)		-	-	625	-	(26,392)	41,725	-	-	15,958
Reclassification to retained earnings		-	-	(2,657)	-	-	2,657	-	-	-
Shares issued	15	4,473	-	-	-	-	-	-	-	4,473
Dividend paid	9	-	-	-	-	-	(75,917)	-	-	(75,917)
At 30 June 2009		174,738	(161,304)	1,628,783	895	(22,216)	220,251	-	-	1,841,147

The notes and accounting policies on pages 59 to 112 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 2009		175,308	(161,304)	1,628,783	895	(22,216)	220,075	1,841,541
Profit for the period		-	-	-	-	-	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		-	-	(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

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 2008		170,402	(161,304)	1,630,815	895	4,176	251,601	1,896,585
Profit for the period		-	-	-	-	-	41,743	41,743
Other comprehensive income/(loss)		-	-	625	-	(26,392)	-	(25,767)
Total comprehensive income/(loss)		-	-	625	-	(26,392)	41,743	15,976
Reclassification to retained earnings		-	-	(2,657)	-	-	2,657	-
Shares issued	15	4,906	-	-	-	-	-	4,906
Dividend paid	9	-	-	-	-	-	(75,926)	(75,926)
At 30 June 2009		175,308	(161,304)	1,628,783	895	(22,216)	220,075	1,841,541

The notes and accounting policies on pages 59 to 112 form part of and are to be read in conjunction with these financial statements.

Balance sheet

For the year ended 30 June 2010

		GROUP		PARENT	
		2010	2009	2010	2009
	Notes	$000	$000	$000	$000
Non-current assets					
Property, plant and equipment	11	2,532,864	2,547,609	2,532,864	2,547,609
Investment properties	12	490,131	467,537	490,131	467,537
Investment in associate – HMSC-AIAL Ltd	8	-	5,892	-	5,892
Investment in other associates	8	161,867	-	-	-
Investment in subsidiaries	7	-	-	39,098	-
Derivative financial instruments	19	7,596	5,334	7,596	5,334
Inter-company loans	7	-	-	136,984	-
Other non-current assets		775	775	775	775
		3,193,233	3,027,147	3,207,448	3,027,147
Current assets					
Cash	13	36,052	34,320	36,052	34,320
Inventories		102	130	102	130
Prepayments		5,188	3,309	5,188	3,309
Accounts receivable	14	16,112	17,321	16,310	17,720
Dividend receivable	8	3,687	-	-	-
Taxation receivable		-	4,239	-	4,239
Held for sale investment in associate – HMSC-AIAL Ltd	8	6,782	-	6,782	-
Derivative financial instruments	19	902	1,683	902	1,683
		68,825	61,002	65,336	61,401
Total assets		3,262,058	3,088,149	3,272,784	3,088,548

The notes and accounting policies on pages 59 to 112 form part of and are to be read in conjunction with these financial statements.

		GROUP		PARENT	
		2010	2009	2010	2009
	Notes	$000	$000	$000	$000
Shareholders' equity					
Issued and paid-up capital	15	313,245	174,738	313,794	175,308
Cancelled share reserve	16	(161,304)	(161,304)	(161,304)	(161,304)
Retained earnings	16	150,471	220,251	155,406	220,075
Property, plant and equipment revaluation reserve	16	1,632,764	1,628,783	1,632,764	1,628,783
Share-based payments reserve	16	906	895	906	895
Cash flow hedge reserve	16	(18,899)	(22,216)	(18,899)	(22,216)
Share of reserves of associates	16	(1,202)	-	-	-
Foreign currency translation reserve	16	(2,347)	-	-	-
		1,913,634	1,841,147	1,922,667	1,841,541
Non-current liabilities					
Term borrowings	18	885,218	803,707	885,218	803,707
Derivative financial instruments	19	25,802	29,279	25,802	29,279
Deferred tax liability	3(c),6	172,083	91,302	172,088	91,307
Other term liabilities		531	438	531	438
		1,083,634	924,726	1,083,639	924,731
Current liabilities					
Accounts payable and accruals	17	45,983	42,753	45,815	42,753
Taxation payable		8,709	-	10,565	-
Derivative financial instruments	19	2,751	5,020	2,751	5,020
Short-term borrowings	18	206,780	272,998	206,780	272,998
Provisions	25	567	1,505	567	1,505
		264,790	322,276	266,478	322,276
Total equity and liabilities		3,262,058	3,088,149	3,272,784	3,088,548

These financial statements were approved and adopted by the board on 26 August 2010.
Signed on behalf of the board by

Anthony Frankham
Chairman
26 August 2010

Joan Withers
Director, chair of the audit and risk committee

The notes and accounting policies on pages 59 to 112 form part of and are to be read in conjunction with these financial statements.

Cash flow statement

For the year ended 30 June 2010

	Notes	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Cash flow from operating activities					
Cash was provided from:					
Receipts from customers		363,097	363,501	363,142	363,545
Income tax refunded		3,233	11,621	3,233	11,603
Interest received		1,678	2,611	1,678	2,611
		368,008	377,733	368,053	377,759
Cash was applied to:					
Payments to suppliers and employees		(87,423)	(87,715)	(87,595)	(87,740)
Income tax paid		(32,329)	(44,304)	(32,324)	(44,304)
Other taxes paid		(248)	(344)	(248)	(344)
Interest paid		(71,752)	(75,292)	(71,752)	(75,292)
		(191,752)	(207,655)	(191,919)	(207,680)
Net cash flow from operating activities	20	176,256	170,078	176,134	170,079
Cash flow from investing activities					
Cash was provided from:					
Proceeds from sale of assets		2	371	2	371
		2	371	2	371
Cash was applied to:					
Purchase of property, plant and equipment		(42,897)	(82,517)	(42,897)	(82,517)
Interest paid – capitalised		(2,102)	(3,889)	(2,102)	(3,889)
Expenditure on investment properties		(8,338)	(7,303)	(8,338)	(7,303)
Investment in associates	8	(170,797)	-	-	-
Inter-company loan funding		-	-	(130,797)	-
Investment in subsidiaries		-	-	(40,000)	-
		(224,134)	(93,709)	(224,134)	(93,709)
Net cash applied to investing activities		(224,132)	(93,338)	(224,132)	(93,338)
Cash flow from financing activities					
Cash was provided from:					
Increase in share capital	15	138,507	4,473	138,641	4,481
Increase in borrowings		2,699,456	3,383,955	2,699,456	3,383,955
		2,837,963	3,388,428	2,838,097	3,388,436
Cash was applied to:					
Decrease in borrowings		(2,685,000)	(3,355,624)	(2,685,000)	(3,355,624)
Dividends paid	9	(103,355)	(75,917)	(103,367)	(75,926)
		(2,788,355)	(3,431,541)	(2,788,367)	(3,431,550)
Net cash flow applied to financing activities		49,608	(43,113)	49,730	(43,114)
Net increase/(decrease) in cash held		1,732	33,627	1,732	33,627
Opening cash brought forward		34,320	693	34,320	693
Ending cash carried forward	13	36,052	34,320	36,052	34,320

The notes and accounting policies on pages 59 to 112 form part of and are to be read in conjunction with these financial statements.

Notes and accounting policies

For the year ended 30 June 2010

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.

Auckland Airport provides airport facilities and supporting infrastructure in Auckland, New Zealand. The company earns revenue from aeronautical activities and other charges and rents associated with operating an airport.

These financial statements were authorised for issue in accordance with a resolution of the directors on 26 August 2010.

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

The following significant changes to accounting policies have been adopted for new accounting standards and new interpretations in the preparation and presentation of the financial statements:

- *NZ IAS 1 Presentation of Financial Statements (Revised)* is effective for annual reporting periods beginning on or after 1 January 2009. The application of this revised standard did not affect any of the amounts recognised in the financial statements, but introduces the concept of comprehensive income in the presentation of financial statements and changes the presentation of the statement of changes in equity.
- *NZ IFRS 8 Operating Segments* is effective for annual reporting periods beginning on or after 1 January 2009. This new standard replaces *NZ IAS 14 Segment Reporting*. The new standard adopts the approach used by the chief operating decision-maker to determine and report segments. Additional disclosures about each segment are shown in note 4, including restated comparative information. Under NZ IAS 14, Auckland Airport reported one business and geographical segment.
- *Amendment to NZ IFRS 7 Financial Instruments: Disclosures – Improving disclosures about financial instruments* is effective for periods beginning on or after 1 January 2009. The amended standard requires additional disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of the fair value measurement hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The amended standard results in additional disclosures with no impact on reported earnings.
- *Amendment to NZ IAS 40 Investment Property* (resulting from Annual Improvement Process – 2008) is effective for periods beginning on or after 1 January 2009. The amended standard includes in the classification of investment property any project or development under construction that, when complete, will be classified as investment property. Where Auckland Airport is unable to reliably determine the fair value of an investment property under construction, but expects to be able to determine its fair value on completion, the investment property under construction will be measured at cost until such time as fair value can be reliably determined or construction is complete.

The adoption of these standards and amendments does not have a material impact on the amounts recognised in the group's financial statements.

Unless stated above, 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 2010. The adoption of these

Notes and accounting policies (continued)

For the year ended 30 June 2010

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.

(d) Basis of consolidation

The consolidated financial statements comprise the financial statements of the company and its subsidiaries (the 'group').

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.

The financial statements of the subsidiaries are prepared for the same reporting period as 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.

(e) 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, 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.

(f) 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.

(g) 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.

(h) 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 and other activities that are not investing or financing activities.

Investing activities are the acquisition and disposal of long-term assets and other 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.

(i) Accounts receivable

Accounts receivable are recognised and carried at the original invoice 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 the average 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.

(j) Derivative financial instruments and hedging

The group uses derivative financial instruments such as interest rate swaps, forward rate agreements and forward foreign exchange contracts 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 forward rate agreements are determined using 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 have actually been highly effective throughout the financial reporting periods for which they were designated.

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 bank loans and commercial paper. 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.

(k) 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.

Notes and accounting policies (continued)

For the year ended 30 June 2010

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.

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.

(l) Investments in associates
The equity method of accounting is used 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 associate's 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.

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.

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

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 stated at their fair value. 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.

Notes and accounting policies (continued)

For the year ended 30 June 2010

(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 reflecting 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.

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 service 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 for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

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 set off 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 (GST)
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 transactions 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.

Notes and accounting policies (continued)

For the year ended 30 June 2010

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 balance 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, runway, taxiways and aprons and infrastructural assets at fair value. Land, buildings, 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, 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 the 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 used at the last revaluation are disclosed in note 11.

(c) Carrying value of deferred taxation

The group calculates the value of deferred taxation in accordance with *NZ IAS 12 Income Taxes* ('IAS 12'). IAS 12 requires deferred taxation to be provided on all temporary differences at the balance date between the tax carrying value of assets and liabilities and the accounting carrying value for financial reporting purposes. In May 2010, the Government announced changes to the tax legislation to remove the ability to depreciate building structures for tax deductions when the life of the building is equal to or greater than 50 years. For the group the application of this taxation change under IAS 12 creates a tax carrying value of nil from 1 July 2011 onwards for these buildings, increases the deferred taxation liability by $84.404 million, including the future change in the income tax rate from 30% to 28%, and creates a one-off, non-cash accounting adjustment to taxation expense for deferred tax on buildings for the year ended 30 June 2010 of $84.404 million.

The non-cash accounting adjustment to taxation expense and to deferred taxation, noted above, complies with NZ IFRS as required by the Financial Reporting Act 1993. The application of the current IAS 12, to revalued investment property and revalued property, plant and equipment, for jurisdictions like New Zealand where no capital gains tax regime exists, creates a large deferred taxation liability which does not reflect taxation payable if the assets were for sale or sold.

Further, the definition of what constitutes a building for taxation purposes is still being clarified by Inland Revenue and Treasury. The adjustment to deferred taxation on buildings represents the best estimate of the building definition as at 30 June 2010, based on current information.

The directors disagree with the appropriateness of the one-off, non-cash adjustment to taxation expense and deferred taxation referred to above that arises from obligatory compliance with NZ IFRS and thus IAS 12. The directors consider it appropriate to provide the additional information set out in this note and note 6, being information that the directors consider is integral to the truth and fairness of the financial statements. The directors note that the International Accounting Standards Board is currently reviewing the application of IAS 12.

4. Segment information

(a) Identification of reportable segments

The company 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.

(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 carparking 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 2010 financial year accounted for 24.6% of external revenue. The revenue from this customer is included in all three operating segments. In the 2009 financial year the two most significant customers accounted for 25.2% and 14.0% of external revenue respectively. The revenue from these customers is included in all three operating segments.

(d) Geographical areas

Revenue is derived in New Zealand, being the location where the sale occurred. Property, plant and equipment and investment property are located in New Zealand.

Notes and accounting policies (continued)

For the year ended 30 June 2010

GROUP	Aeronautical $000	Retail $000	Property $000	Total $000
Year ended 30 June 2010				
External income				
Airfield income	66,715	-	-	66,715
Passenger service 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	18,533	2,157	1,353	22,043
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
Other	2,729	2,874	1,264	6,867
Total segment expenses	46,647	10,367	7,329	64,343
Segment earnings before interest, taxation, depreciation, fair value adjustments and investments in associates (Segment EBITDAFI)	144,965	121,993	27,171	294,129
Share of profit of an associate	-	890	-	890
Investment property fair value increases	-	-	9,469	9,469
Segment earnings before interest, taxation and depreciation (Segment EBITDA)	144,965	122,883	36,640	304,488

Income reported above represents income generated from external customers. There was no inter-segment income in the year (2009: $nil).

GROUP	Aeronautical $000	Retail $000	Property $000	Total $000
Year ended 30 June 2009				
External income				
Airfield income	70,458	-	-	70,458
Passenger service charge	66,542	-	-	66,542
Terminal services charge	27,470	-	-	27,470
Retail income	6	105,310	-	105,316
Rental income	17,338	-	30,637	47,975
Rates recoveries	534	-	2,676	3,210
Car park income	-	29,357	20	29,377
Other income	6,509	4,792	977	12,278
Total segment income	188,857	139,459	34,310	362,626
Expenses				
Staff	21,140	1,700	1,364	24,204
Asset management, maintenance and airport operations	23,594	3,079	2,516	29,189
Rates and insurance	112	-	5,262	5,374
Other	5,803	2,582	1,453	9,838
Total segment expenses	50,649	7,361	10,595	68,605
Segment earnings before interest, taxation, depreciation, fair value adjustments and investments in associates (Segment EBITDAFI)	138,208	132,098	23,715	294,021
Share of profit of associate	-	949	-	949
Investment property fair value increases/(decreases)	-	-	(64,586)	(64,586)
Segment earnings before interest, taxation and depreciation (Segment EBITDA)	138,208	133,047	(40,871)	230,384

Notes and accounting policies (continued)

For the year ended 30 June 2010

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

	GROUP	
	2010 $000	2009 $000
Segment income	358,472	362,626
Interest income	1,678	2,611
Other revenue	2,963	3,058
Total income	363,113	368,295

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

	GROUP	
	2010 $000	2009 $000
Segment EBITDA	304,488	230,384
Unallocated external operating income from continuing operations	4,641	5,669
Unallocated operating expenses from continuing operations	(22,459)	(20,276)
Share of loss of an associate	(792)	-
Depreciation	(55,736)	(54,766)
Interest expense and other finance costs	(71,938)	(75,590)
Profit before taxation	158,204	85,421

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.

5. Profit for the year

	GROUP		PARENT	
	2010 $000	2009 $000	2010 $000	2009 $000
Staff expenses comprise:				
Salaries and wages	24,771	24,321	24,771	24,321
Other employee benefits	2,509	2,208	2,509	2,208
Share-based payment (refer note 27)	228	421	228	421
Defined contribution superannuation	640	592	640	592
Restructuring costs	1,072	4,195	1,072	4,195
Other staff costs	2,354	2,600	2,354	2,600
	31,574	34,337	31,574	34,337
Other expenses include:				
Audit fees	207	189	207	189
Auditor's other attestation fees	56	68	56	68
Auditor's tax compliance fees	71	114	71	114
Directors' fees	920	753	920	753
Donations	12	11	12	11
Bad and doubtful debts written off	120	930	120	930
Doubtful debts – change in provision	157	(135)	157	(135)
Loss on disposal of property, plant and equipment	172	971	172	971
Interest expense and other finance costs comprise:				
Interest on bonds and related hedging instruments	33,613	31,691	33,613	31,691
Interest on bank facilities and related hedging instruments	35,293	38,757	35,293	38,757
Interest on commercial paper and related hedging instruments	5,134	9,031	5,134	9,031
	74,040	79,479	74,040	79,479
Less capitalised borrowing costs	(2,102)	(3,889)	(2,102)	(3,889)
	71,938	75,590	71,938	75,590

Interest on financial liabilities that are not fair value through profit or loss was $57.603 million for the year ended 30 June 2010 (2009: $73.872 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 2010	GROUP 2009	PARENT 2010	PARENT 2009
Interest rate for capitalised borrowing costs	6.86%	7.52%	6.86%	7.52%
Interest income includes:				
External interest income	1,678	2,611	1,678	2,611
Inter-company interest	-	-	6,187	-
	1,678	2,611	7,865	2,611

Notes and accounting policies (continued)

For the year ended 30 June 2010

6. Taxation

	GROUP		PARENT	
	2010 $000	2009 $000	2010 $000	2009 $000
(a) Income tax expense				
The major components of income tax expense are:				
Current income tax				
Current income tax charge	43,153	44,288	45,009	44,288
Income tax over-provided in prior year	(1,115)	(2,117)	(1,115)	(2,117)
Deferred income tax				
Movement in deferred tax	2,503	1,525	2,503	1,525
Reduction in future corporate tax rate (excluding buildings)	(435)	-	(435)	-
Other taxation expense	44,106	43,696	45,962	43,696
Movement in deferred tax relating to legislative changes 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	128,510	43,696	130,366	43,696

	GROUP		PARENT	
	2010 $000	2009 $000	2010 $000	2009 $000
(b) Deferred taxation taken directly to other comprehensive income				
Tax on the property, plant and equipment revaluation reserve	260	625	260	625
Tax effect of movements in the cash flow hedge reserve	(1,647)	9,521	(1,647)	9,521
Reduction in future corporate tax rate	7,077	-	7,077	-
Deferred tax credit reported in equity	5,690	10,146	5,690	10,146

	GROUP		PARENT	
	2010 $000	2009 $000	2010 $000	2009 $000
(c) Reconciliation between prima facie taxation and tax expense				
Profit before taxation	158,204	85,421	165,183	85,439
Prima facie taxation at 30%	47,461	25,626	49,555	25,632
Adjustments:				
Share of associate's tax-paid earnings	(29)	(285)	(267)	(285)
Revaluation of land with no tax impact	(1,822)	16,147	(1,822)	16,147
Income tax over-provided in prior year	(1,115)	(2,117)	(1,115)	(2,117)
Prior year deferred tax movements in relation to property, plant and equipment	-	4,250	-	4,250
Other	46	75	46	69
Reduction in future corporate tax rate (excluding buildings)	(435)	-	(435)	-
Other taxation expense	44,106	43,696	45,962	43,696
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	128,510	43,696	130,366	43,696

Notes and accounting policies (continued)

For the year ended 30 June 2010

	Balance 1 July 2009 $000	Movement in income $000	Movement in other comprehensive income $000	Balance 30 June 2010 $000
(d) Deferred tax assets and liabilities				
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 2008 $000	Movement in income $000	Movement in other comprehensive income $000	Balance 30 June 2009 $000
Group				
Deferred tax liabilities				
Property, plant and equipment	89,875	3,160	(625)	92,410
Investment properties	11,716	(997)	-	10,719
Other	364	(228)	-	136
Deferred tax liabilities	101,955	1,935	(625)	103,265
Deferred tax assets				
Cash flow hedge	-	-	9,521	9,521
Provisions and accruals	2,032	410	-	2,442
Deferred tax assets	2,032	410	9,521	11,963
Net deferred tax liability	99,923	1,525	(10,146)	91,302

	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 hedge	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

	Balance 1 July 2008 $000	Movement in income $000	Movement in other comprehensive income $000	Balance 30 June 2009 $000
Parent				
Deferred tax liabilities				
Property, plant and equipment	89,875	3,160	(625)	92,410
Investment properties	11,716	(997)	-	10,719
Other	364	(228)	-	136
Deferred tax liabilities	101,955	1,935	(625)	103,265
Deferred tax assets				
Cash flow hedges	-	-	9,521	9,521
Provisions and accruals	2,027	410	-	2,437
Deferred tax assets	2,027	410	9,521	11,958
Net deferred tax liability	99,928	1,525	(10,146)	91,307

Notes and accounting policies (continued)

For the year ended 30 June 2010

The reduction in the corporate tax rate from 30% to 28%, 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 2010, there were no unrecognised temporary differences associated with the group's investments in associates.

The change in tax legislation also removes the ability to depreciate building structures for income tax purposes when the life of the building is greater than 50 years. This has resulted in a one-off, non-cash accounting adjustment increasing the deferred tax liability and deferred tax expense.

The increase in deferred tax liability and expense is $84.404 million, including the future change in the income tax rate from 30% to 28%, and has no impact on the company's underlying profitability and cash flows in the year ended 30 June 2010. In effect, the accounting charge represents 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 requires the adjustment to deferred taxation by $84.404 million for the change in tax depreciation on existing buildings.

	GROUP		PARENT	
	2010 $000	2009 $000	2010 $000	2009 $000
(e) Imputation credits				
Balance at beginning of the year	23,913	28,578	23,890	28,555
Income tax paid	29,000	41,500	29,000	41,500
Credits attached to dividends paid	(40,959)	(34,562)	(40,959)	(34,562)
Income tax refunded	(3,233)	(11,603)	(3,233)	(11,603)
Balance at end of the year	8,721	23,913	8,698	23,890

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 2010	2009
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	-

Auckland Airport Limited
Auckland Airport Limited was established on 23 July 2007 and holds the investment in Auckland Airport Hotel Limited Partnership. During the year, a loan of $2.776 million (2009: $nil) was made from Auckland International Airport Limited to Auckland 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.

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 (2009: $nil) of share capital in Auckland Airport Holdings Limited. During the year, a loan of $128.021 million (2009: $nil) was made from Auckland International Airport Limited to Auckland Airport Holdings Limited. No repayment was made during the year. The loan is repayable on demand. Interest charged was $6.187 million at a rate of 10.5%. The value of the loan and accrued interest is included in other non-current assets in the statement of financial position.

Notes and accounting policies (continued)

For the year ended 30 June 2010

8. Investment in associates

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

	GROUP		PARENT	
	2010 $000	2009 $000	2010 $000	2009 $000
Investment in associate at beginning of the year	5,892	4,943	5,892	4,943
New investments in associates	170,797	-	-	-
Disposals of investments in associates	-	-	-	-
Share of profit after tax of associates	98	949	890	949
Share of reserves of associates	(1,202)	-	-	-
Share of dividends received	(3,687)	-	-	-
Foreign currency translation	(3,249)	-	-	-
Investment in associates at end of the year	168,649	5,892	6,782	5,892
Amount of goodwill in carrying amount of investment at beginning of the year	-	-	-	-
Amount of goodwill in carrying amount of investment at end of the year	92,462	-	-	-

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

HMSC-AIAL Limited operates food and beverage facilities at the international terminal of Auckland International Airport. The shareholding held by Auckland Airport was, subsequent to balance date, sold to Host International, Inc, the only other shareholders, on 18 August 2010 for consideration of $8.022 million. HSMC-AIAL Limited has been treated as a held-for-sale investment as the final negotiations and approval process were in progress at balance date. HMSC-AIAL Limited is 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 (2009: $nil).

The following tables illustrate the financial information of HMSC-AIAL Limited for the year:

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

	2010 $000	2009 $000
Revenue	15,354	15,597
Expenses	12,185	12,329
Earnings before interest, taxation and depreciation (EBITDA)	3,169	3,268
Depreciation and amortisation expense	(648)	(555)
Income tax expense	(743)	(810)
Profit after tax and total comprehensive income for the period	1,778	1,903

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

	2010 $000	2009 $000
Current assets	11,912	9,793
Non-current assets	3,973	3,938
Total assets	15,885	13,731
Current liabilities	2,321	1,947
Shareholders' equity	13,564	11,784
Total equity and liabilities	15,885	13,731

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

	GROUP		PARENT	
	2010 $000	2009 $000	2010 $000	2009 $000
Investment in associate at beginning of the year	5,892	4,943	5,892	4,943
Share of surplus of associate	1,261	1,354	1,261	1,354
Taxation (credit)/expense	371	405	371	405
Share of surplus after tax of associate	890	949	890	949
Less share of dividends received	-	-	-	-
Net addition to investment carrying value	890	949	890	949
	6,782	5,892	6,782	5,892

(b) Investment in Associates – Auckland Airport Hotel Limited Partnership

AAPC Properties Pty Limited ('Accor Hospitality'), Tainui Group Holdings Limited and Auckland Airport have formed a limited partnership to develop and operate a 4-star-plus, 263-room Novotel hotel adjacent to the international terminal at Auckland Airport. Construction commenced during the first week of December 2009 and the hotel is expected to be operational late in the 2011 financial year. The Novotel hotel is 20% owned by Auckland Airport. The remaining 80% is owned in aggregate by Accor Hospitality and Tainui Group Holdings Limited.

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

	GROUP		PARENT	
	2010 $000	2009 $000	2010 $000	2009 $000
Investment in associate at beginning of the year	-	-	-	-
Cost of investment in associate	2,776	-	-	-
Investment in associate at end of the year	2,776	-	-	-

Notes and accounting policies (continued)

For the year ended 30 June 2010

(c) Investment in Associates – Stapled Securities of North Queensland Airports Limited

The company purchased from Westpac Bank a 24.55% stake in North Queensland Airports Limited, the operator of Cairns and Mackay airports in Queensland, Australia, for AU$132.8 million (NZ$166.7 million) on 13 January 2010.

The following tables illustrate the financial information of North Queensland Airports Limited for the period 13 January 2010 to 30 June 2010 in Australian dollars:

Extract from North Queensland Airports Limited's statement of comprehensive income:

	January to June 2010 AU$000
Revenue	34,208
Expenses	19,275
Earnings before interest, taxation, depreciation, amortisation and fair value adjustments (EBITDAF)	14,933
Investment property fair value increase/(decrease)	4,352
Earnings before interest, taxation, depreciation and amortisation (EBITDA)	19,285
Depreciation and amortisation expense	9,418
Earnings before interest and taxation (EBIT)	9,867
Interest expense	13,256
Loss before tax	3,389
Income tax (benefit)/expense	(989)
Loss after taxation	2,400
Other comprehensive loss	3,860
Total comprehensive loss for the period	6,260

Extract from North Queensland Airports Limited's statement of financial position at 30 June 2010:

	2010 AU$000
Current assets	42,188
Non-current assets	621,370
Goodwill	230,324
Total assets	893,882
Current liabilities	38,478
Non-current liabilities	404,355
Shareholders' equity	451,049
Total equity and liabilities	893,882

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

	GROUP		PARENT	
	2010 $000	2009 $000	2010 $000	2009 $000
Investment in associate at beginning of the year	-	-	-	-
Cost of investment in associate, including transaction costs	168,021	-	-	-
Disposals of investments in associate	-	-	-	-
Share of loss after tax of associate	(792)	-	-	-
Share of reserves of associate	(1,202)	-	-	-
Dividends received/receivable	(3,687)	-	-	-
Foreign currency translation	(3,249)	-	-	-
Investment in associate at end of the year	159,091	-	-	-
Amount of goodwill in carrying amount of investment at beginning of the year	-	-	-	-
Amount of goodwill in carrying amount of investment at end of the year	92,462	-	-	-

The bank financiers of North Queensland Airports Limited 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 Limited declared a dividend of AU$12.200 million on 30 June 2010 for the six-month period to 30 June 2010. The group's share of the dividend is AU$2.995 million (NZ$3.687 million). The payment of the dividend was subsequently received on 29 July 2010.

9. Distribution to shareholders

		GROUP		PARENT	
	Dividend payment date	2010 $000	2009 $000	2010 $000	2009 $000
2008 final dividend of 2.45 cps	24 October 2008	-	29,987	-	29,990
2009 interim dividend of 3.75 cps	27 March 2009	-	45,930	-	45,936
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	-
Total dividends paid		103,355	75,917	103,367	75,926

Supplementary dividends of $3.340 million (2009: $2.805 million) are not included in the above dividends as the company receives an equivalent tax credit from the Inland Revenue Department.

On 26 August 2010, the directors approved the payment of a 2010 fully imputed final dividend of 4.45 cents per share (2009: 4.45 cents per share) to be paid on 22 October 2010.

The interim and final dividends relating to the 2010 financial year total 8.20 cents per share. The total of 8.20 cents per share is the same as the interim and final dividends relating to the 2009 and 2008 financial years.

Notes and accounting policies (continued)

For the year ended 30 June 2010

10. Earnings per share

The earnings used in calculating basic and diluted earnings per share is $29.694 million (2009: $41.725 million). Earnings per share includes changes to the fair value of investment property and the impact on deferred taxation related to the legislative change on tax deductions for building depreciation.

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

	GROUP	
	2010 shares	2009 shares
For basic earnings per share	1,257,346,731	1,224,376,880
Effect of dilution of share options	290,247	182,892
For dilutive earnings per share	1,257,636,978	1,224,559,772

Options granted to executives as described in note 27 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 2010 reported basic and diluted earnings per share is 2.36 cents. After excluding the impact of the one-off, non-cash accounting adjustment resulting from the change in tax legislation, removing the ability to depreciate building structures for income tax purposes when the life of the building is greater than 50 years, the basic and diluted earnings per share is 9.07 cents. The earnings used in calculating this adjusted basic and diluted earnings per share for the year ended 30 June 2010 is $114.097 million, being the reported earnings of $29.694 million with $84.404 million added back for the deferred tax adjustment including the change in the income tax rate from 30% to 28%.

11. Property, plant and equipment

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

Year ended 30 June 2010

	GROUP AND PARENT					
	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 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

Notes and accounting policies (continued)

For the year ended 30 June 2010

Year ended 30 June 2010

	GROUP AND PARENT					
	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 2008						
At fair value	1,495,138	556,920	204,150	259,422	-	2,515,630
At cost	-	-	-	-	47,961	47,961
Work in progress at cost	-	32,126	28,684	13,177	3,104	77,091
Accumulated depreciation	-	(45,698)	(14,988)	(20,646)	(36,331)	(117,663)
Balances as at 1 July 2008	1,495,138	543,348	217,846	251,953	14,734	2,523,019
Additions	3,882	30,038	20,630	16,711	8,945	80,206
Transfers to investment property	212	-	(668)	-	-	(456)
Disposals	-	-	(265)	(62)	(67)	(394)
Depreciation	-	(28,125)	(9,995)	(10,814)	(5,832)	(54,766)
Movement to 30 June 2009	4,094	1,913	9,702	5,835	3,046	24,590
Balances as at 30 June 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 30 June 2009	1,499,232	545,261	227,548	257,788	17,780	2,547,609

Additions for the year ended 30 June 2010 include capitalised interest of $2.102 million (2009: $3.889 million).

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

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

Where the fair value of an asset can 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. Land, buildings and services, infrastructure, runway, taxiways and aprons acquired subsequent to 30 June 2006 are carried at cost less depreciation which is considered to be their fair value as at 30 June 2010.

The intention of the company is to undertake a revaluation of property, plant and equipment in the year ending 30 June 2011.

To arrive at fair value for property, plant and equipment as at 30 June 2006 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	Direct sales comparison plus development and holding costs to achieve land suitable for airport use	Seagar & Partners (Auckland) Limited
Reclaimed land and seawalls	Optimised depreciated replacement cost	Opus International Consultants Limited
Aeronautical land, including land associated with aircraft, freight and terminal uses	Direct sales comparison	Seagar & Partners (Auckland) Limited
Land associated with car park facilities	Discounted cash flow cross-referenced to a market capitalisation of net revenues as indicated by market activity from comparable transactions	Seagar & Partners (Auckland) Limited
Land associated with retail facilities within terminal buildings	Discounted cash flow	Seagar & Partners (Auckland) Limited
Lessor's interest in land	Discounted cash flow	Seagar & Partners (Auckland) Limited
Land associated with commercial property	Direct capitalisation of rental income and discounted cash flow	Seagar & Partners (Auckland) Limited
Other land	Direct sales comparison	Seagar & Partners (Auckland) Limited
Buildings and services		
Specialised buildings and services including terminals	Optimised depreciated replacement cost	Opus International Consultants Limited
Car park buildings and other improvements	Optimised depreciated replacement cost	Opus International Consultants Limited
Buildings and services associated with commercial property	Direct capitalisation of rental income and discounted cash flow	Seagar & Partners (Auckland) Limited
Infrastructure		
Infrastructure assets associated with commercial property	Direct capitalisation of rental income and discounted cash flow	Seagar & Partners (Auckland) Limited
Infrastructure assets associated with car park buildings and other improvements	Optimised depreciated replacement cost	Opus International Consultants Limited
Other infrastructure assets	Optimised depreciated replacement cost	Opus International Consultants Limited
Runway, taxiways and aprons		
Runway, taxiways and aprons	Optimised depreciated replacement cost	Opus International Consultants Limited

Notes and accounting policies (continued)

For the year ended 30 June 2010

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

	GROUP		PARENT	
	2010 $000	2009 $000	2010 $000	2009 $000
Land				
Cost	131,121	130,278	131,121	130,278
Accumulated depreciation	-	-	-	-
Net carrying amount	131,121	130,278	131,121	130,278
Buildings and services				
Cost	713,682	693,365	713,682	693,365
Accumulated depreciation	(332,301)	(304,189)	(332,301)	(304,189)
Net carrying amount	381,381	389,176	381,381	389,176
Infrastructure				
Cost	218,412	209,933	218,412	209,933
Accumulated depreciation	(66,961)	(60,015)	(66,961)	(60,015)
Net carrying amount	151,451	149,918	151,451	149,918
Runway, taxiways and aprons				
Cost	291,343	287,592	291,343	287,592
Accumulated depreciation and impairment	(126,067)	(115,410)	(126,067)	(115,410)
Net carrying amount	165,276	172,182	165,276	172,182

12. Investment properties

	GROUP		PARENT	
	2010 $000	2009 $000	2010 $000	2009 $000
Balance at the beginning of the year	467,537	524,280	467,537	524,280
Additions	8,338	7,387	8,338	7,387
Transfers	4,787	456	4,787	456
Investment properties net revaluations	9,469	(64,586)	9,469	(64,586)
Balance at end of the year	490,131	467,537	490,131	467,537

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 2010 were performed by Seagar & Partners (Auckland) Limited, Colliers International and CB Richard Ellis. The valuation as at 30 June 2009 was performed by Seagar & Partners (Auckland) Limited. All valuers are registered valuers and industry specialists in valuing these types of investment properties.

The impact of the valuation as at 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 valuation in the prior year resulted in a decrease in the carrying value of the investment properties.

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**	
	2010	2009	2010	2009
Contract capitalisation rate – average	8.42%	8.62%	8.42%	8.62%
Market capitalisation rate – average	8.70%	8.96%	8.70%	8.96%
Occupancy	96.47%	96.09%	96.47%	96.09%
Weighted average lease term (years)	4.64	4.73	4.64	4.73
Number of buildings and land parcels	107	106	107	106

	GROUP		**PARENT**	
	2010	2009	2010	2009
	$000	$000	$000	$000
Rental income for investment properties	22,854	21,672	22,854	21,672
Recoverable cost income	2,118	2,104	2,118	2,104
Direct operating expenses for investment properties that derived rental income	(976)	(1,495)	(976)	(1,495)
Direct operating expenses for investment properties that did not derive rental income	(84)	-	(84)	-

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

	GROUP		**PARENT**	
	2010	2009	2010	2009
	$000	$000	$000	$000
Seagar & Partners (Auckland) Limited	143,979	466,941	143,979	466,941
Colliers International	153,730	-	153,730	-
CB Richard Ellis	191,036	-	191,036	-
Investment property carried at cost	1,386	596	1,386	596
Total fair value of investment properties	490,131	467,537	490,131	467,537

Notes and accounting policies (continued)

For the year ended 30 June 2010

13. Cash

	GROUP		PARENT	
	2010 $000	2009 $000	2010 $000	2009 $000
Short-term deposits	35,500	34,800	35,500	34,800
Cash and bank balances	552	(480)	552	(480)
	36,052	34,320	36,052	34,320

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% to 4.15%. (2009: at a rate of 2.50% to 7.50%).

14. Accounts receivable

	GROUP		PARENT	
	2010 $000	2009 $000	2010 $000	2009 $000
Trade receivables	2,593	5,461	2,593	5,461
Less: Provision for doubtful debts	(575)	(418)	(575)	(418)
Net trade receivables	2,018	5,043	2,018	5,043
Revenue accruals and other receivables	14,094	12,278	14,292	12,677
	16,112	17,321	16,310	17,720

(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 $0.575 million (2009: $0.418 million) have been recognised by the group in the current year. 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	
	2010 $000	2009 $000	2010 $000	2009 $000
At 1 July	418	553	418	553
Change in provision for the year	277	795	277	795
Amounts written off	(120)	(930)	(120)	(930)
At 30 June	575	418	575	418

(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 are 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.

15. Issued and paid-up capital

	GROUP		PARENT	
	2010 $000	2009 $000	2010 $000	2009 $000
Opening issued and paid-up capital at 1 July	174,738	170,265	175,308	170,402
Options exercised during the year	1,060	4,473	1,060	4,473
Shares issued to employee share scheme	-	-	-	433
Shares allocated to employees by employee share scheme	21	-	-	-
Shares issued under the Accelerated Renounceable Entitlement Offer	122,620	-	122,620	-
Shares issued under the dividend reinvestment plan	14,806	-	14,806	-
Closing issued and paid-up capital at 30 June	313,245	174,738	313,794	175,308

	GROUP		PARENT	
	2010 Shares	2009 Shares	2010 Shares	2009 Shares
Opening number of shares issued at 1 July	1,224,812,995	1,222,149,095	1,225,243,239	1,222,295,239
Options exercised during the year	640,000	2,662,400	640,000	2,662,400
Shares issued to employee share scheme	-	-	-	285,600
Shares allocated to employees by employee share scheme	12,000	1,500	-	-
Shares issued under the Accelerated Renounceable Entitlement Offer	76,610,417	-	76,610,417	-
Shares issued under the dividend reinvestment plan	7,899,175	-	7,899,175	-
Closing number of shares issued at 30 June	1,309,974,587	1,224,812,995	1,310,392,831	1,225,243,239

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 27.

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.

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 Limited. 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 were 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 2010, 7,899,175 shares with a total value of $14.806 million were issued in lieu of a cash dividend (30 June 2009: nil).

Notes and accounting policies (continued)

For the year ended 30 June 2010

16. Retained earnings and reserves

(a) Movements in retained earnings were:

	GROUP		PARENT	
	2010	2009	2010	2009
	$000	$000	$000	$000
Balance at 1 July	220,251	251,786	220,075	251,601
Profit after taxation	29,694	41,725	34,817	41,743
Ordinary dividends paid (refer note 9)	(103,355)	(75,917)	(103,367)	(75,926)
Reclassification from revaluation reserve	3,881	2,657	3,881	2,657
Balance at 30 June	150,471	220,251	155,406	220,075

(b) Reserves

(i) Cancelled share reserve

	GROUP		PARENT	
	2010	2009	2010	2009
	$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	
	2010	2009	2010	2009
	$000	$000	$000	$000
Balance at the beginning of the year	1,628,783	1,630,815	1,628,783	1,630,815
Reclassification to retained earnings	(3,881)	(2,657)	(3,881)	(2,657)
Movement in deferred tax	7,862	625	7,862	625
Balance at the end of the year	1,632,764	1,628,783	1,632,764	1,628,783

(iii) Share-based payments reserve

	GROUP		PARENT	
	2010	2009	2010	2009
	$000	$000	$000	$000
Balance at the beginning of the year	895	895	895	895
Employee Share Purchase Plan	11	-	11	-
Balance at the end of the year	906	895	906	895

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 27 for further details of these plans.

(iv) Cash flow hedge reserve

	GROUP		PARENT	
	2010	2009	2010	2009
	$000	$000	$000	$000
Balance at the beginning of the year	(22,216)	4,176	(22,216)	4,176
Fair value change in hedging instrument	(15,323)	(30,230)	(15,323)	(30,230)
Transfer to income statement	20,812	(5,683)	20,812	(5,683)
Movement in deferred tax	(2,172)	9,521	(2,172)	9,521
Balance at the end of the year	(18,899)	(22,216)	(18,899)	(22,216)

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.

Notes and accounting policies (continued)

For the year ended 30 June 2010

(v) Share of reserves of associate

	GROUP		PARENT	
	2010 $000	2009 $000	2010 $000	2009 $000
Balance at the beginning of the year	-	-	-	-
Share of reserves of associate	1,202	-	-	-
Balance at the end of the year	(1,202)	-	-	-

The share of reserves of 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 an associate.

(vi) Foreign currency translation reserve

	GROUP		PARENT	
	2010 $000	2009 $000	2010 $000	2009 $000
Balance at the beginning of the year	-	-	-	-
Fair value change in hedging instrument	902	-	-	-
Foreign currency translation	(3,249)	-	-	-
Balance at the end of the year	(2,347)	-	-	-

17. Accounts payable and accruals

	GROUP		PARENT	
	2010 $000	2009 $000	2010 $000	2009 $000
Employee entitlements	4,895	5,154	4,895	5,154
Phantom option plan accrual (refer note 27)	2,000	2,000	2,000	2,000
GST payable	2,408	2,163	2,408	2,163
Property, plant and equipment retentions and payables	12,323	10,432	12,323	10,432
Trade payables	1,356	2,373	1,356	2,373
Other payables and accruals	23,001	20,631	22,833	20,631
Total accounts payable and accruals	45,983	42,753	45,815	42,753

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	
			2010	2009	2010	2009
	Maturity	Coupon	$000	$000	$000	$000
Current						
Commercial paper	<3 months	Floating	81,780	72,824	81,780	72,824
Bonds	29/07/2009	6.67%	-	67,074	-	67,074
Floating rate notes	29/07/2009	Floating	-	8,100	-	8,100
Bank facility	10/03/2010	Floating	-	125,000	-	125,000
Bank facility	10/03/2011	Floating	125,000	-	125,000	-
Total short-term borrowings			206,780	272,998	206,780	272,998
Non-current						
Bank facility	10/03/2011	Floating	-	125,000	-	125,000
Bank facility	31/01/2012	Floating	275,000	270,000	275,000	270,000
Bank facility	10/03/2013	Floating	50,000	-	50,000	-
Floating rate notes	29/07/2011	Floating	5,000	5,000	5,000	5,000
Bonds	29/07/2011	6.83%	72,047	73,715	72,047	73,715
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%	127,192	-	127,192	-
Bonds	07/11/2015	7.25%	100,000	100,000	100,000	100,000
Bonds	10/08/2016	8.00%	25,987	-	25,987	-
Bonds	15/11/2016	8.00%	129,992	129,992	129,992	129,992
Total term borrowings			885,218	803,707	885,218	803,707
Total						
Commercial paper			81,780	72,824	81,780	72,824
Bank facilities			450,000	520,000	450,000	520,000
Floating rate notes			5,000	13,100	5,000	13,100
Bonds			555,218	470,781	555,218	470,781
Total borrowings			1,091,998	1,076,705	1,091,998	1,076,705
Summary of maturities						
Due less than one year			206,780	272,998	206,780	272,998
Due one to three years			452,047	473,715	452,047	473,715
Due three to five years			177,192	100,000	177,192	100,000
Due greater than five years			255,979	229,992	255,979	229,992
			1,091,998	1,076,705	1,091,998	1,076,705

The group utilises a mixture of bank facilities, term bonds, floating rate notes, commercial paper 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 2010

Bank facilities

During December 2009, the company established a new bilateral $150.000 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 new facility remains undrawn as at 30 June 2010 and 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.

In March 2008, the company established a dual tranche standby facility agreement with a syndicate of banks for $200.000 million. The first tranche was for $100.000 million and was cancelled on 24 August 2009. The second tranche of $100.000 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 $350.000 million. The facility contained a two-year facility of $125.000 million, a three-year facility of $125.000 million and a five-year revolving facility of up to $100.000 million. The company repaid the $125 million facility in November 2009 and February 2010 in advance of its scheduled expiry date of March 2010. The three-year, $125.000 million facility is fully drawn as at 30 June 2010, and the five-year, $100.000 million facility is drawn up to $50.000 million as at 30 June 2010.

In December 2005, the company established a $275.000 million, five-year bank facility with Commonwealth Bank of Australia. The facility contains a term debt facility of $100.000 million and a revolving cash advances facility of $175.000 million, both of which are fully drawn as at 30 June 2010. 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% and 3.93% (2009: 3.13% and 9.35%) and at year-end the rates were between 3.01% and 3.93% (2009: 3.13% and 3.56%).

Term bonds

During October and November 2009, the company raised $125.000 million through a public bond issue. The bonds are unsecured and unsubordinated and pay interest at a fixed rate of 7.00% with a maturity date of 27 November 2014.

In August 2009, the company raised $25.000 million through a private placement bond issue. The bonds are unsecured and unsubordinated and pay an interest rate of 8.00% per annum with a maturity date of 10 August 2016.

During January and February 2009, the company raised $50.000 million through a follow-up of the retail bond issue in October and November 2008. The bonds are unsecured and unsubordinated and pay interest at a fixed rate of 7.25% with a maturity date of 28 February 2014.

During October and November 2008, the company raised $130.000 million through a retail bond issue. The bonds are unsecured and unsubordinated and pay interest at a fixed rate of 8.00% with a maturity date of 15 November 2016.

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

Floating rate notes

Floating rate notes are based on the 90-day bank bill rate plus a margin of 30 basis points (2009: 24 to 30 basis points). During the year-ended 30 June 2010 the range of interest rates has been between 3.01% and 3.31% (2009: 3.25% and 9.21%) and at year-end the rate was 3.01% (2009: between 3.25% and 3.31%).

Commercial paper

Commercial paper rates are set through a tender process and during the year ended 30 June 2010 the range of weighted average interest rates for each issue has been between 3.00% and 3.61% (2009: 3.40% and 9.29%) and at year-end the rates were between 3.00% and 3.41% (2009: 3.40% and 3.61%).

Money market facilities

The money market rates during the year ended 30 June 2010 have been between 3.05% and 3.30% (2009: 5.25% and 9.20%).

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

19. Derivative financial instruments

The group is subject to interest rate risk on the group's borrowings. To manage interest rate risk the company has utilised interest rate swaps that are accounted for as cash flow hedges or fair value hedges.

The group is subject to foreign currency risk arising from the translation risk related to an investment in foreign operations. The group uses a foreign forward rate agreement to hedge the net investment in the North Queensland Airports Limited operations.

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

	GROUP		PARENT	
	2010 $000	2009 $000	2010 $000	2009 $000
Current assets				
Interest rate swaps – fair value hedges	-	1,683	-	1,683
Forward foreign exchange contract – net investment hedge	902	-	-	-
Forward foreign exchange contract – fair value hedge	-	-	902	-
Total	902	1,683	902	1,683
Non-current assets				
Interest rate swaps – fair value hedges	7,596	5,334	7,596	5,334
Total	7,596	5,334	7,596	5,334
Current liabilities				
Interest rate swaps – cash flow hedges	2,751	5,020	2,751	5,020
Total	2,751	5,020	2,751	5,020
Non-current liabilities				
Interest rate swaps – cash flow hedges	25,802	29,279	25,802	29,279
Total	25,802	29,279	25,802	29,279

Notes and accounting policies (continued)

For the year ended 30 June 2010

Interest rate swaps

Cash flow hedges

At 30 June 2010, 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 2010 is $370.000 million (2009: $485.000 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 2010, the company held 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 at 30 June 2010 is $145.000 million (2009: $136.900 million). These 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 for fair value hedges recognised in the income statement during the period were:

	GROUP		PARENT	
	2010 $000	2009 $000	2010 $000	2009 $000
Gains/(losses) on the fixed interest bonds	(1,337)	(7,718)	(1,337)	(7,718)
Gains/(losses) on the derivatives	1,337	7,718	1,337	7,718

Forward foreign exchange contracts

Net investment hedge (Group)

At 30 June 2010, the group held forward foreign exchange contracts to sell AU$40.000 million and buy New Zealand dollars for value on 13 July 2010 at a forward rate of $0.80525. 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 Limited.

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

	GROUP	
	2010 $000	2009 $000
Gains/(losses) on translation of the investment	(3,249)	-
Gains/(losses) on the derivatives	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 Limited, via its subsidiary Auckland Airport Holdings Limited.

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

	PARENT	
	2010 $000	2009 $000
Gains/(losses) on the investment	(902)	-
Gains/(losses) on the derivatives	902	-

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

	GROUP		PARENT	
	2010 $000	2009 $000	2010 $000	2009 $000
Profit after taxation	29,694	41,725	34,817	41,743
Non-cash items:				
Depreciation	55,736	54,766	55,736	54,766
Bad debts and doubtful debts	277	795	277	795
Deferred taxation expense	86,472	1,525	86,472	1,525
Share-based payments expense	11	-	11	-
Equity-accounted earnings from associates	(98)	(949)	(890)	(949)
Investment property fair value decrease/(increase)	(9,469)	64,586	(9,469)	64,586
Inter-company interest	-	-	(6,187)	-
Items not classified as operating activities:				
(Gain)/loss on asset disposals	172	971	172	971
(Increase)/decrease in provisions and property, plant and equipment retentions and payables	(953)	5,168	(953)	5,168
Movement in working capital:				
(Increase)/decrease in current assets	(921)	(3,369)	(873)	(3,344)
(Increase)/decrease in taxation receivable	12,948	9,488	14,804	9,470
Increase/(decrease) in accounts payable	2,294	(4,636)	2,124	(4,660)
Increase/(decrease) in other term liabilities	93	8	93	8
Net cash flow from operating activities	176,256	170,078	176,134	170,079

21. 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) and derivatives (designated as effective hedging instruments).

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 group's derivative financial instruments are interest rate swaps and forward foreign currency contracts that are all effective hedging instruments. The group's financial instruments arise directly from the group's operations as part of raising finance for the group's operations.

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.

	2010 Carrying amount $000	2010 Fair value $000	2009 Carrying amount $000	2009 Fair value $000
Bonds	555,218	580,948	470,781	475,166

Notes and accounting policies (continued)

For the year ended 30 June 2010

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 19) 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 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.

22. 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 counter-party credit risk. The group has no material risk other than 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 $0.531 million (2009: $0.438 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 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 2010, this facility headroom was $200.000 million (2009: $305.000 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 as at 30 June 2010. 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 opposite, 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.

	GROUP				
	<1 year $000	1 to 3 years $000	3 to 5 years $000	>5 years $000	Total $000
Year ended 30 June 2010					
Liquid 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 liquid 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	57,036	82,082	54,058	19,138	212,314
Total financial liabilities	310,586	532,082	229,058	274,130	1,345,856

	GROUP				
	<1 year $000	1 to 3 years $000	3 to 5 years $000	>5 years $000	Total $000
Year ended 30 June 2009					
Liquid financial assets					
Cash	34,320	-	-	-	34,320
Accounts receivable	17,321	-	-	-	17,321
Other non-current assets	775	-	-	-	775
Total liquid financial assets	52,416	-	-	-	52,416
Financial liabilities					
Accounts payable and accruals	42,753	-	-	-	42,753
Provisions	1,505	-	-	-	1,505
Commercial paper	73,000	-	-	-	73,000
Bank facilities	125,000	395,000	-	-	520,000
Floating rate notes	8,100	5,000	-	-	13,100
Bonds	66,900	70,000	100,000	229,992	466,892
Interest	46,316	72,069	42,617	34,591	195,593
Total financial liabilities	363,574	542,069	142,617	264,583	1,312,843

Notes and accounting policies (continued)

For the year ended 30 June 2010

	PARENT				
	<1 year $000	1 to 3 years $000	3 to 5 years $000	>5 years $000	Total $000
Year ended 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	57,036	82,082	54,058	19,138	212,314
Total financial liabilities	310,418	532,082	229,058	274,130	1,345,688

	PARENT				
	<1 year $000	1 to 3 years $000	3 to 5 years $000	>5 years $000	Total $000
Year ended 30 June 2009					
Liquid financial assets					
Cash	34,320	-	-	-	34,320
Accounts receivable	17,720	-	-	-	17,720
Other non-current assets	775	-	-	-	775
Total liquid financial assets	52,815	-	-	-	52,815
Financial liabilities					
Accounts payable and accruals	42,753	-	-	-	42,753
Provisions	1,505	-	-	-	1,505
Commercial paper	73,000	-	-	-	73,000
Bank facilities	125,000	395,000	-	-	520,000
Floating rate notes	8,100	5,000	-	-	13,100
Bonds	66,900	70,000	100,000	229,992	466,892
Interest	46,316	72,069	42,617	34,591	195,593
Total financial liabilities	363,574	542,069	142,617	264,583	1,312,843

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
	$000	$000	$000	$000	$000
As at 30 June 2010					
Current derivative assets – foreign currency contract	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)

Notes and accounting policies (continued)

For the year ended 30 June 2010

	GROUP AND PARENT				
	< 1 year $000	1 to 3 years $000	3 to 5 years $000	>5 years $000	Total $000
As at 30 June 2009					
Current derivative assets – fair value hedge	1,686	-	-	-	1,686
Non-current derivative assets – fair value hedge	2,517	2,983	-	-	5,500
Current derivative liabilities – cash flow hedge	(5,092)	-	-	-	(5,092)
Non-current derivative liabilities – cash flow hedge	(15,437)	(12,197)	(1,406)	(1,964)	(31,004)
Total	(16,326)	(9,214)	(1,406)	(1,964)	(28,910)

(c) Interest rate risk

The group's exposure to market risk for changes in interest rates relates primarily to the company's short and long-term borrowings. Borrowings issued at variable interest rates expose the company to changes in interest rates. Borrowings issued at fixed rates expose the company 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 debt. 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, 74% (2009: 79%) 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 eight years from 30 June 2010.

At balance date, the company had the following mix of financial assets and liabilities exposed to New Zealand variable interest rate risk that are not designated in cash flow hedges:

	GROUP		PARENT	
	2010 $000	2009 $000	2010 $000	2009 $000
Financial assets				
Cash	36,052	34,320	36,052	34,320
	36,052	34,320	36,052	34,320
Financial liabilities				
Floating rate notes	5,000	13,100	5,000	13,100
Bonds in fair value hedge	145,000	136,900	145,000	136,900
Bank facilities	150,000	105,000	150,000	105,000
Commercial paper	12,000	3,000	12,000	3,000
	312,000	258,000	312,000	258,000
Net exposure	275,948	223,680	275,948	223,680

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

	GROUP		PARENT	
	2010 $000	2009 $000	2010 $000	2009 $000
Increase in interest rates of one per cent				
Effect on profit before tax	(2,765)	(2,230)	(2,765)	(2,230)
Effect on retained earnings	(1,936)	(1,561)	(1,936)	(1,561)
Effect on cash flow hedge reserve	10,968	14,529	10,968	14,529
Decrease in interest rates of one per cent				
Effect on profit before tax	2,765	2,230	2,765	2,230
Effect on retained earnings	1,936	1,561	1,936	1,561
Effect on cash flow hedge reserve	(11,608)	(15,394)	(11,608)	(15,394)

Significant assumptions used in the interest rate sensitivity analysis include:

- 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 2010 of $276.500 million (2009: $223.024 million). An interest rate of plus and minus one per cent has therefore been applied to this floating rate debt to demonstrate the sensitivity of interest rate risk.
- Tax rate used to calculate the effect on retained earnings as at 30 June 2010 is 30% (2009: 30%).
- 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% effective as at 30 June 2010 are assumed to remain 100% effective until maturity, therefore any movements in these derivative valuations are taken to the cash flow hedge reserve.

(d) 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 adjusting 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 2010 is 36.2% (2009: 36.9%). The current long-term credit rating of Auckland Airport by Standard & Poor's at 30 June 2010 is A- Stable Outlook (2009: A- Stable Outlook).

(e) Foreign currency risk

The group also has foreign currency exposures arising from the translation risk related to investment in foreign operations.

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

Notes and accounting policies (continued)

For the year ended 30 June 2010

The following sensitivity is based on the foreign currency risk exposures in existence at the reporting date. At 30 June 2010, 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	
	2010 $000	2009 $000	2010 $000	2009 $000
Strengthening of NZ$ against AU$ of 10 per cent				
Effect on derivative financial instruments	4,463	-	4,463	-
Effect on investments in subsidiaries	-	-	(4,463)	-
Effect on foreign currency translation reserve	(10,000)	-	-	-
Effect on net investment in associate	(14,463)	-	-	-
Weakening of NZ$ against AU$ of 10 per cent				
Effect on derivative financial instruments	(5,455)	-	(5,455)	-
Effect on investments in subsidiaries	-	-	5,455	-
Effect on foreign currency translation reserve	10,454	-	-	-
Effect on net investment in associate	15,909	-	-	-

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 10% has therefore been applied to the AU$/NZ$ exchange rate to demonstrate the sensitivity of foreign currency risk of the company's investment in foreign operations and associated derivative financial instruments.
- The sensitivity was calculated by taking the AU$ spot rate as at balance date, moving this spot rate by the reasonably possible movements of plus and minus 10% and then reconverting the AU$ into NZ$ with the 'new spot-rate'. This methodology reflects the translation methodology undertaken by the group.
- The foreign exchange forward contract in place as at 30 June 2010 is 100% effective as at 30 June 2010 and is assumed to remain 100% effective until maturity. The foreign exchange forward contract is in a fair value hedge at the parent level – therefore all movements are taken to the investment in subsidiaries – and is in a net investment hedge at the group level, therefore all movements are taken to the foreign currency translation 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.

23. Commitments

(a) Property, plant and equipment commitments

The company had contractual obligations to suppliers to purchase or develop property, plant and equipment for $2.995 million at balance date (2009: $20.100 million) principally relating to the first floor redevelopment of the international terminal.

(b) Investment property commitments

The company had contractual obligations to suppliers to purchase or develop investment property for $1.804 million at balance date (2009: $7.457 million). The company has further contractual obligations to tenants to purchase or develop investment property for $18.062 million at balance date (2009: $nil).

(c) Commitments relating to the investment Auckland Airport Hotel Limited Partnership

The group has contractual obligations to advance $6.500 million to the limited partnership for the development of the Novotel hotel. $2.776 million had been advanced prior to the period end leaving a remaining commitment of $3.724 million at 30 June 2010 (30 June 2009: $nil).

(d) 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	
	2010	2009	2010	2009
	$000	$000	$000	$000
Within one year	112,983	106,238	112,983	106,238
After one year but no more than five years	388,613	384,705	388,613	384,705
After more than five years	93,011	133,258	93,011	133,258
Total minimum lease payments receivable	594,607	624,201	594,607	624,201

24. 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 has commenced but on 28 August 2009 Auckland Airport announced that this construction had been deferred for 12 months due to economic conditions at that time. Auckland Airport has gone through extensive consultation with the airline industry and a review of capacity management on the existing runway. Subsequent to the financial year-end a decision has been made to extend the deferral of the construction of the second runway for a few more years.

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 $11.000 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.

Notes and accounting policies (continued)

For the year ended 30 June 2010

25. 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 228 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 are open for 12 months. As at 30 June 2010, the company has received acceptances from the owners of seven homes.

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	
	2010 $000	2009 $000	2010 $000	2009 $000
Opening balance	1,505	3,165	1,505	3,165
Provisions made in the period	-	233	-	233
Unused amounts reversed in the period	-	-	-	-
Expenditure in the period	(938)	(1,893)	(938)	(1,893)
	567	1,505	567	1,505

26. 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 is an associate entity of the company and during the year ended 30 June 2010 transactions with HMSC-AIAL Limited totalled $1.298 million (2009: $0.795 million). As at 30 June 2010 $0.001 million was owed by HMSC-AIAL Limited (2009: $0.009 million).

North Queensland Airports Limited is an associate entity of the company. During the year ended 30 June 2010 there were no transactions with North Queensland Airports Limited (2009: $nil). The directors of North Queensland Airports Limited declared a dividend of AU$12.200 million on 30 June 2010 for the six-month period to 30 June 2010. The group's share of the dividend is AU$2.995 million (NZ$3.687 million). The dividend was subsequently received on 29 July 2010.

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 2010, the group has not made any allowance for impairment loss relating to amounts owed by related parties (2009: $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 loan to Auckland Airport Limited which is interest free.

(b) Loans to related parties
During the year, a loan of $128.021 million (2009: $nil) was made from Auckland International Airport Limited to its wholly-owned subsidiary Auckland Airport Holding Limited. No repayment was made during the year. The loan is repayable on demand. Interest charged was $6.187 million at a rate of 10.5%.

During the year, a loan of $2.776 million (2009: $nil) was made from Auckland International Airport Limited to its wholly-owned subsidiary Auckland Airport Limited. No repayment was made during the year. The loan is repayable on demand.

(c) Key personnel compensation
The table below includes the remuneration of directors and the senior management team:

	GROUP		PARENT	
	2010 $000	2009 $000	2010 $000	2009 $000
Directors' fees	920	753	920	753
Senior management's salary and other short-term benefits	3,600	4,002	3,600	4,002
Termination payments	-	713	-	713
Senior management's share-based payment expense	1,258	18	1,258	18
Total key personnel compensation	5,778	5,486	5,778	5,486

During the year ended 30 June 2010, two additional directors were appointed.

Notes and accounting policies (continued)

For the year ended 30 June 2010

27. Share-based payment plans

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

	GROUP		PARENT	
	2010 $000	2009 $000	2010 $000	2009 $000
Expense from equity-settled share-based payments				
Employee share purchase plan	11	-	11	-
Expense from cash-settled share-based payments				
Phantom option plan	228	421	228	421
Total expense from share-based payment transactions	239	421	239	421

(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 $0.223 million (2009: $0.390 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 2010 are J Nicholl, S Robertson and C Spillane. J Nicholl is the general manager of human resources, S Robertson is the chief financial officer and C Spillane is general manager of corporate affairs of Auckland International Airport Limited. The trustees are appointed and removed by the directors.

The following ordinary shares were allocated to employees under the purchase plan:

	2010 Shares	2009 Shares
Employee allocation – May 2009		
Opening balance	284,100	-
Shares issued during the year	-	285,600
Shares fully paid and allocated during the year	(12,000)	(1,500)
Shares forfeited during the year	(19,100)	-
Balance at end of the year	253,000	284,100

Shares were issued at a price of $1.515, on 21 May 2009, being a 10% discount on the average market selling price over the 10 trading days ending on 14 April 2009.

	2010 Shares	2009 Shares
Unallocated shares held by the purchase 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	19,100	-
Total unallocated shares held by the plan	165,244	146,144
Total ordinary shares held at 30 June	418,244	430,244

Notes and accounting policies (continued)

For the year ended 30 June 2010

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 0.0319% (2009: 0.0351%) of the total company's shares on issue.

(b) Executive share option incentive plan

As part of previous executive 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 granted before 2003 had been reduced for the capital repayment of seven in every twenty-five shares made in October 2002. The number of options had been increased to reflect the four-for-one share split completed in April 2005.

The first issue of options under this option plan was made on 15 December 1999. No options 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.

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	-	-

For the year ended 30 June 2009

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
09/09/2002	29/11/2008	1.46	662,400	662,400	-	-
11/07/2003	04/09/2009	1.59	1,000,000	1,000,000	-	-
11/07/2003	04/09/2009	1.59	500,000	500,000	-	-
11/07/2003	04/09/2009	1.59	500,000	500,000	-	-
12/01/2004	12/01/2010	1.59	640,000	-	640,000	640,000
			3,302,400	2,662,400	640,000	640,000
Weighted average exercise price per share			$1.72	$1.68	$1.45	$1.45

There are no share options outstanding as at 30 June 2010. The weighted average remaining contracted life for the share options outstanding as at 30 June 2009 is 0.54 years and the exercise price for these options outstanding was $1.45. There were no options issued during the year ended 30 June 2010 (2009: $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

As options available under the option plan approved by shareholders in 1999 had been fully utilised, the directors adopted a Phantom Option Plan ('phantom plan') approach for the executive allocation for each calendar year from 2003 to 2009.

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 plan for the 2009 year involves 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 per cent. Any benefit above the initial issue price of $1.73 is payable in cash, less tax, three to five years after allocation.

Under a further phantom plan, Simon 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 his 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.

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% per annum. S Moutter has not participated in the other phantom option plans.

As at 30 June 2010 the fair value of the cash-settled phantom plans for all the participating executives is $2.000 million (2009: $2.000 million) and full provision has been made 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 $0.228 million during the year ended 30 June 2010 (2009: $0.421 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 2010

The following table lists the key inputs to the models used for the years ended 30 June 2010 and 30 June 2009:

	Assumptions 2010	Assumptions 2009
Expected volatility (%)	21.9%	22.6%
Risk-free interest rate (%)	4.13%	4.41%
Share price at measurement date ($)	$1.87	$1.61

28. Events subsequent to balance date

(a) Final dividend

On 26 August 2010, the directors approved the payment of a fully imputed final dividend of 4.45 cents per share, amounting to $58.312 million to be paid on 22 October 2010.

(b) Sale of Auckland Airport's share of HMSC-AIAL Limited

On 18 August 2010, Auckland Airport sold its 50% share of HMSC-AIAL Limited to Host International, Inc. Host International, Inc was the other 50% 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.

The sale of HMSC-AIAL Limited was made concurrently with the establishment of a new concession agreement for HMSC-AIAL Limited to provide food and beverage facilities at Auckland Airport.

(c) Investment in Queenstown Airport

On 8 July 2010, Auckland Airport formed a strategic alliance with Queenstown Airport Corporation Limited ('Queenstown Airport') and as part of the alliance invested $27.700 million in 4.0 million new shares at $6.91 per share. The investment results in Auckland Airport owning 24.99% of Queenstown Airport. Queenstown Airport has an option for Auckland Airport to increase its shareholding to between 30% and 35% at any time up to 30 June 2011, following approval from the other shareholder, Queenstown Lakes District Council ('QLDC'). The price for any additional shares is $7.47 per share, plus a lump-sum consideration of $2.200 million, reflecting the additional value of a shareholding over 25%. 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 company is named as a defendant in two sets of proceedings filed in the High Court at Invercargill by Air New Zealand Limited and the Queenstown Strategic Assets Group Trustee Limited. The first and second defendants in those proceedings are QLDC and Queenstown Airport. The plaintiffs in the proceedings seek judicial review of actions of QLDC and Queenstown Airport in connection with Auckland Airport's investment in Queenstown Airport. No damages or other relief is sought against Auckland Airport. Auckland Airport will vigorously defend these claims.

Deloitte.

Audit Report

For the year ended 30 June 2010

TO THE SHAREHOLDERS OF AUCKLAND INTERNATIONAL AIRPORT LIMITED

We have audited the financial statements on pages 52 to 112. The financial statements provide information about the past financial performance and financial position of Auckland International Airport Limited and group as at 30 June 2010. This information is stated in accordance with the accounting policies set out on pages 59 to 65.

Board of Directors' Responsibilities

The Board of Directors is responsible for the preparation, in accordance with New Zealand law and generally accepted accounting practice, of financial statements which give a true and fair view of the financial position of Auckland International Airport Limited and group as at 30 June 2010 and of the results of operations and cash flows for the year ended on that date.

Auditors' Responsibilities

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

Basis of Opinion

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

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

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

Other than in our capacity as auditor and the provision of taxation advice, we have no relationship with or interests in Auckland International Airport Limited or any of its subsidiaries or associates.

Unqualified Opinion

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

In our opinion:

- proper accounting records have been kept by Auckland International Airport Limited as far as appears from our examination of those records; and
- the financial statements on pages 52 to 112:
  - 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 2010 and the results of their operations and cash flows for the year ended on that date.

Our audit was completed on 26 August 2010 and our unqualified opinion is expressed as at that date.

Deloitte

Chartered Accountants
Auckland, New Zealand

This audit report relates to the financial statements of Auckland International Airport Limited (the 'Company') and group for the year ended 30 June 2010 included on the Company's website. The Director's are responsible for the maintenance and integrity of the Company's website. We have not been engaged to report on the integrity of the Company'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 26 August 2010 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

Group Income statement	2010 $000	2009 $000	2008 $000	2007 $000	2006 $000
Income					
Airfield income	66,715	70,458	70,129	66,266	67,351
Passenger service charge	73,252	66,542	66,952	64,389	60,405
Terminal services charge	27,814	27,470	22,897	21,888	17,274
Retail income	95,817	105,316	98,427	93,744	86,712
Rental income	48,533	47,975	45,172	33,267	31,502
Rates recoveries	2,982	3,210	3,132	2,736	2,285
Car park income	31,057	29,377	29,252	25,878	24,847
Interest income	1,678	2,611	563	1,076	517
Other revenue	15,265	15,336	13,455	11,798	14,233
Total income	363,113	368,295	349,979	321,042	305,126
Expenses					
Staff	31,574	34,337	24,893	36,045	25,950
Asset management, maintenance and airport operations	30,948	30,158	25,717	22,987	20,500
Rates and insurance	7,035	6,845	7,389	6,271	5,793
Other	17,245	17,541	17,195	13,927	13,410
Total expenses	86,802	88,881	75,194	79,230	65,653
Earnings before interest, taxation and depreciation, fair value of adjustments and investments in associates (EBITDAFI)	276,311	279,414	274,785	241,812	239,473
Share of profit of an associate	890	949	1,051	904	688
Share of loss of an associate	(792)	-	-	-	-
Investment property fair value increases/ (decreases)	9,469	(64,586)	13,721	140,160	-
Costs relating to ownership proposals	-	-	(9,588)	-	-
Earnings before interest, taxation and depreciation (EBITDA)	285,878	215,777	279,969	382,876	240,161
Depreciation	55,736	54,766	46,973	43,184	38,546
Earnings before interest and taxation (EBIT)	230,142	161,011	232,996	339,692	201,615
Interest expense and other finance costs	71,938	75,590	72,548	62,739	54,911
Profit before taxation	158,204	85,421	160,448	276,953	146,704
Taxation expense					
Deferred tax adjustment on buildings	84,404	-	-	-	-
Other taxation expense	44,106	43,696	47,489	46,089	43,549
Total taxation expense	128,510	43,696	47,489	46,089	43,549
Profit after taxation	29,694	41,725	112,959	230,864	103,155

Note 2010, 2009, 2008 and 2007 have been prepared under NZ IFRS and 2006 is reported under previous NZ FRS.

Group statement of comprehensive income	2010 $000	2009 $000	2008 $000	2007 $000	2006 $000
Profit for the period:	29,694	41,725	112,959	230,864	103,155
Other comprehensive income					
Property, plant and equipment net revaluation	-	-	-	-	1,385,718
Investment properties net revaluation	-	-	-	-	13,615
Tax on the property, plant and equipment revaluation reserve	7,862	625	58	11,496	-
Foreign currency translation reserve	(2,347)	-	-	-	-
Share based payments	11	-	31	92	-
Share of reserves of associate	(1,202)	-	-	-	-
Cash flow hedges:					
Fair value gains/(losses) recognised in the cash flow hedge reserve	(15,323)	(30,230)	(2,467)	10,457	-
Realised (gains)/losses transferred to the income statement	20,812	(5,683)	(5,489)	(331)	-
Tax effect of movements in the cash flow hedge reserve	(2,172)	9,521	-	-	-
Total cash flow hedge movement	3,317	(26,392)	(7,956)	10,126	-
Total other comprehensive income/(loss)	7,641	(25,767)	(7,867)	21,714	1,399,333
Total comprehensive income for the period, net of tax	37,335	15,958	105,092	252,578	1,502,488

Note 2010, 2009, 2008 and 2007 have been prepared under NZ IFRS and 2006 is reported under previous NZ FRS.

Group statement of changes in equity	2010 $000	2009 $000	2008 $000	2007 $000	2006 $000
At 1 July	1,841,147	1,896,633	1,914,965	**1,760,208	457,549
Profit for the period	29,694	41,725	112,959	230,864	103,155
Other comprehensive income/(loss)	7,641	(25,767)	(7,867)	21,714	1,399,333
Total comprehensive income/(loss)	37,335	15,958	105,092	252,578	1,502,488
Buy-back of shares	-	-	-	-	(8,192)
Share issued	138,507	4,473	1,208	2,266	3,485
Dividend paid	(103,355)	(75,917)	(124,632)	(100,087)	(100,228)
At 30 June	1,913,634	1,841,147	1,896,633	1,914,965	1,855,102

Note 2010, 2009, 2008 and 2007 have been prepared under NZ IFRS and 2006 is reported under previous NZ FRS.

** 2007 opening balance restated under NZ IFRS.

Five year summary

For the year ended 30 June

Group Balance sheet	2010 $000	2009 $000	2008 $000	2007 $000	2006 $000
Non-current assets					
Property, plant and equipment					
Freehold land	1,498,579	1,499,232	1,495,138	1,492,015	1,645,619
Buildings and services	535,617	545,261	543,348	472,095	425,392
Infrastructure	226,528	227,548	217,846	198,728	195,742
Runways, taxiways and aprons	251,027	257,788	251,953	252,647	254,855
Vehicles, plant and equipment	21,113	17,780	14,734	12,517	11,822
	2,532,864	2,547,609	2,523,019	2,428,002	2,533,430
Investment properties	490,131	467,537	524,280	509,900	193,502
Investment in associate – HMSC-AIAL Ltd	-	5,892	4,943	3,892	2,988
Investment in other associates	161,867	-	-	-	-
Derivative financial instruments	7,596	5,334	6,991	12,507	-
Other non-current assets	775	775	775	775	1,075
	3,193,233	3,027,147	3,060,008	2,955,076	2,730,995
Current assets					
Cash	36,052	34,320	693	1,594	324
Inventories	102	130	178	134	100
Prepayments	5,188	3,309	3,220	2,890	3,616
Accounts receivable	16,112	17,321	14,789	12,140	11,935
Dividend receivable	3,687	-	-	-	-
Taxation receivable	-	4,239	13,727	10,180	10,891
Held for sale investment in associate – HSMC-AIAL Ltd	6,782	-	-	-	-
Derivative financial instruments	902	1,683	292	669	-
	68,825	61,002	32,899	27,607	26,866
Total assets	3,262,058	3,088,149	3,092,907	2,982,683	2,757,861

Group Balance sheet	2010 $000	2009 $000	2008 $000	2007 $000	2006 $000
Shareholders' equity					
Issued and paid-up capital	313,245	174,738	170,265	169,057	166,910
Cancelled share reserve	(161,304)	(161,304)	(161,304)	(161,304)	(161,304)
Retained earnings	150,471	220,251	251,786	262,325	(25,387)
Property, plant and equipment revaluation reserve	1,632,764	1,628,783	1,630,815	1,631,891	1,808,241
Investment property revaluation reserve	-	-	-	-	66,642
Share-based payments reserve	906	895	895	864	-
Cash flow hedge reserve	(18,899)	(22,216)	4,176	12,132	-
Share of reserves of associates	(1,202)	-	-	-	-
Foreign currency translation reserve	(2,347)	-	-	-	-
	1,913,634	1,841,147	1,896,633	1,914,965	1,855,102
Non-current liabilities					
Term borrowings	885,218	803,707	741,727	587,490	600,809
Derivative financial instruments	25,802	29,279	3,758	6,151	-
Deferred tax liability	172,083	91,302	99,923	95,361	-
Other term liabilities	531	438	430	440	958
	1,083,634	924,726	845,838	689,442	601,767
Current liabilities					
Accounts payable and accruals	45,983	42,753	45,730	58,172	38,290
Taxation payable	8,709	-	-	-	-
Derivative financial instruments	2,751	5,020	748	-	-
Short-term borrowings	206,780	272,998	300,793	317,042	259,808
Provisions	567	1,505	3,165	3,062	2,894
	264,790	322,276	350,436	378,276	300,992
Total equity and liabilities	3,262,058	3,088,149	3,092,907	2,982,683	2,757,861

Note 2010, 2009, 2008 and 2007 have been prepared under NZ IFRS and 2006 is reported under previous NZ FRS.

Five year summary

For the year ended 30 June

Group cash flow statement	2010 $000	2009 $000	2008 $000	2007 $000	2006 $000
Cash flow from operating activities					
Cash was provided from:					
Receipts from customers	363,097	363,501	345,973	320,415	300,580
Income tax refunded	3,233	11,621	-	-	-
Interest received	1,678	2,611	563	1,076	517
Dividends from associated company	-	-	-	-	500
	368,008	377,733	346,536	321,491	301,597
Cash was applied to:					
Payments to suppliers and employees	(87,423)	(87,715)	(95,980)	(66,987)	(60,727)
Income tax paid	(32,329)	(44,304)	(46,416)	(44,243)	(51,383)
Other taxes paid	(248)	(344)	(328)	(318)	(496)
Interest paid	(71,752)	(75,292)	(69,484)	(62,789)	(51,596)
	(191,752)	(207,655)	(212,208)	(174,337)	(164,202)
Net cash flow from operating activities	176,256	170,078	134,328	147,154	137,395
Cash flow from investing activities					
Cash was provided from:					
Proceeds from sale of assets	2	371	62	233	2,983
Other investing activities	-	-	-	500	-
	2	371	62	733	2,983
Cash was applied to:					
Purchase of property, plant and equipment	(42,897)	(82,517)	(135,964)	(84,325)	(101,026)
Interest paid - capitalised	(2,102)	(3,889)	(6,831)	(2,833)	(2,758)
Expenditure on investment properties	(8,338)	(7,303)	(3,350)	(15,249)	(4,448)
Investment in associates	(170,797)	-	-	-	-
Other investing activities	-	-	-	(200)	(1,075)
	(224,134)	(93,709)	(146,145)	(102,607)	(109,307)
Net cash applied to investing activities	(224,132)	(93,338)	(146,083)	(101,874)	(106,324)
Cash flow from financing activities					
Cash was provided from:					
Increase in share capital	138,507	4,473	1,208	2,285	3,485
Increase in borrowings	2,699,456	3,383,955	3,959,573	2,103,650	1,833,050
	2,837,963	3,388,428	3,960,781	2,105,935	1,836,535
Cash was applied to:					
Decrease in borrowings	(2,685,000)	(3,355,624)	(3,825,295)	(2,049,858)	(1,612,650)
Dividends paid	(103,355)	(75,917)	(124,632)	(100,087)	(246,950)
Buy-back of shares	-	-	-	-	(8,192)
	(2,788,355)	(3,431,541)	(3,949,927)	(2,149,945)	(1,867,792)
Net cash flow applied to financing activities	(49,608)	(43,113)	10,854	(44,010)	(31,257)
Net increase/(decrease) in cash held	1,732	33,627	(901)	1,270	(186)
Opening cash brought forward	34,320	693	1,594	324	510
Ending cash carried forward	36,052	34,320	693	1,594	324

Note 2010, 2009, 2008 and 2007 have been prepared under NZ IFRS and 2006 is reported under previous NZ FRS.

Key performance indicators	2010	2009	2008	2007	2006
Financial performance					
Underlying EBITDAFI margin	76.1%	77.0%	77.2%	78.4%	78.5%
Underlying profit after-tax return on capital employed	5.6%	5.7%	5.4%	5.3%	3.7%
Underlying earnings per share (cps)	8.35	8.65	8.49	8.22	8.44
Financial position and gearing					
Debt/Debt + equity	36.3%	36.9%	35.5%	32.1%	31.7%
Debt/Underlying EBITDAFI (times)	3.92	3.74	3.61	3.51	3.13
Underlying EBITDAFI interest cover (times)	3.73	3.57	3.43	3.84	4.15
Net tangible assets per share	1.46	1.50	1.55	1.57	1.52
Operating efficiencies					
Passengers per operating staff **	44,491	41,289	43,281	43,908	43,404
Operating income per operating staff ($)	1,201,303	1,173,566	1,167,648	1,144,126	1,100,051
Operating income per passenger ($) **	27.00	28.42	26.59	26.06	25.34
Retail income per international passenger ($) **	12.92	14.31	13.19	12.87	12.21
Car park income per passenger ($) **	2.47	2.45	2.38	2.26	2.22
Operating staff costs/operating revenue	8.7%	9.3%	7.1%	11.2%	8.5%

** Note that, from October 2006, the company now receives more accurate transit data from Immigration New Zealand.
Note that, 2010, 2009, 2008 and 2007 have been prepared under NZ IFRS and 2006 is reported under previous NZ FRS.

Five year summary

For the year ended 30 June

Capital expenditure	2010 $m	2009 $m	2008 $m	2007 $m	2006 $m
Aeronautical	12.3	45.4	108.3	74.4	75.3
Retail	24.3	12.1	8.4	0.5	1.8
Property development	11.9	8.8	6.7	18.0	6.1
Infrastructure and other	5.4	9.5	15.5	12.0	9.8
Car parking	0.4	11.8	4.0	0.5	16.5
Total	54.3	87.6	142.9	105.4	109.5

Passenger, aircraft and MCTOW	2010	2009	2008	2007	2006
Passenger movements					
International *	7,415,792	7,359,611	7,462,683	7,286,397	7,103,035
Domestic	6,032,410	5,598,077	5,740,089	5,068,794	4,963,142
Aircraft movements					
International	42,697	40,756	39,053	38,406	38,759
Domestic	112,274	116,032	120,574	117,469	122,140
MCTOW (tonnes)					
International	3,923,988	4,075,946	4,120,430	4,085,290	4,186,813
Domestic	1,746,912	1,774,079	1,816,370	1,661,844	1,639,690

* Note that, from October 2006, the company now receives more accurate transit data from Immigration New Zealand.

Corporate governance

Auckland Airport prides itself on its exceptionally high standards of corporate governance

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 reflect and satisfy the ASX Corporate Governance Council's Principles of Good Corporate Governance Principles and Recommendations (2nd 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 three 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 and 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 has established the following committees to ensure efficient decision-making:

- Audit and risk
- Remuneration
- 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 the company.

Corporate governance (continued)

For the year ended 30 June 2010

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 2010 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. Tony Frankham, Keith Turner, John Brabazon, Richard Didsbury. Sir Henry van der Heyden, James Miller and Joan Withers 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:

- 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 10% 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:

Anthony Frankham FCA, FAMINZ, AFInstD (Chair)	27 October 1994
Keith Turner BE (Hons), ME, PhD, FIEE, Dist.FIPENZ, FNZIM (Deputy Chair)	21 April 2004
John Brabazon BCom, ACA, AMInstD, F FIN	20 November 2007
Richard Didsbury BE	20 November 2007
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
Joan Withers MBA, AFInstD	29 October 1997

In addition, Lloyd Morrison has appointed Marko Bogoievski as his alternate director. Mr Bogoievski has acted in that capacity during the year until Mr Morrison's return to the board's deliberations in May 2010.

The chief executive, Simon Moutter, is not a member of the board.

A biography of each director of the company is set out on pages 34 and 36.

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 over the page 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 a director is appointed by the board between annual meetings, the three years applies from the date they are appointed by the shareholders at the next meeting 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 of 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 and Anthony Frankham. Their qualifications are set out on pages 34 and 36 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 2010 financial year in accordance with the above procedure.

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 of 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;
- ensuring 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.

Corporate governance (continued)

For the year ended 30 June 2010

Name	Status	Board: Member	Board: No. of meetings	Board: No. of meetings attended	Board: No. of ad hoc meetings	Board: No. of ad hoc meetings attended [3]	Audit and risk: Member	Audit and risk: No. of meetings	Audit and risk: No. of meetings attended	Remuneration: Member	Remuneration: No. of meetings	Remuneration: No. of meetings attended	Nominations: Member	Nominations: No. of meetings	Nominations: No. of meetings attended
Anthony Frankham	Independent non-executive	✔	11	11	9	9	✔	8	8	✔	6	6	✔	4	4
Keith Turner	Independent non-executive	✔	11	11	9	9				✔	6	6	✔	4	4
John Brabazon	Independent non-executive	✔	11	11	9	8	✔	8	8						
Richard Didsbury	Independent non-executive	✔	11	11	9	8	✔	8	8				✔	4	4
Henry van der Heyden[1]		✔	9	5	9	4				✔	4	3			
James Miller[1]	Not independent non-executive	✔	9	9	9	4	✔	4	4						
Lloyd Morrison[2]	Independent non-executive	✔	11	1	9	-				✔	6	1			
Joan Withers	Independent non-executive	✔	11	10	9	8	✔	8	7						
Marko Bogoievski	Alternate director to Lloyd Morrison Not independent non-executive	✔	8	8	9	4									

1 Appointed 4 September 2009.
2 Lloyd Morrison was granted a leave of absence in January 2009 and returned to board deliberations in May 2010.
3 Includes unscheduled board meetings and six meetings of ad hoc committees of the Board established for the purposes of considering the establishment of a hotel in the International Terminal precinct, due diligence in relation to the company's acquisition of a shareholding in North Queensland Airports Group, the prospectus required for the company's accelerated renounceable entitlement Offer, and the acquisition of shares in Queenstown Airport Corporation.

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 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 ethics 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.

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 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 Joan Withers (chair), John Brabazon, Richard Didsbury, Anthony Frankham and James Miller, all of whom are independent non-executive directors. Their qualifications are set out on pages 34 and 36 and attendance at meetings on page 124.

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

The 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.

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 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 of the board, chief executive and company secretary are appointed as the points of contact for media.

Corporate governance (continued)

For the year ended 30 June 2010

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 governance 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.

Each year, the chief executive and the chief financial officer are required 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

The audit and risk committee's charter and the company's risk management policy can be found on the Company Website.

The company has established a formal internal audit function. This function is performed by Ernst & Young. Ernst & Young reports on its activities two times in each year to the audit and risk committee.

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

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), Anthony Frankham, Lloyd Morrison and Sir Henry van der Heyden. 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 company's remuneration policy is to ensure that:

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

Directors

Non-executive directors receive fees determined by the board on the recommendation of the remuneration committee. Those fees must be within the aggregate amount per annum approved by shareholders. Shareholders approved a total pool of $1.150 million at the company's annual meeting on 20 November 2007.

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
Anthony Frankham[1]	$197,500.00	$150,000
Keith Turner	$130,000.00	-
Marko Bogoievski	-	-
John Brabazon[1]	$112,500.00	-
Richard Didsbury	$111,722.22	-
Henry van der Heyden	$79,487.87	-
James Miller	$84,199.41	-
Lloyd Morrison	$73,750.00	-
Joan Withers[2]	$131,290.86	$120,000

1 Tony Frankham's and John Brabazon's remuneration include ad hoc committee fees of $17,500 and $7,500 respectively. These relate to additional attendances on behalf of the board in relation to the development of a hotel in the International Terminal precinct, due diligence for the company's acquisition of shares in North Queensland Airports Group, the company's accelerated renounceable entitlement offer in relation to each of them and the acquisition of shares in Queenstown Airport Corporation in relation to Mr Frankham.

2 Joan Withers' remuneration includes ad hoc committee fees of $6,666 which relate to due diligence for the company's acquisition of shares in North Queensland Airports Group, the company's accelerated renounceable entitlement offer and the acquisition of shares in Queenstown Airport Corporation.

Management

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

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

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

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

The option plan has operated since 1999, with options issued each subsequent year since 1999. The last options were issued in 2004. A detailed explanation of the option plan is set out in note 27 of the notes to the financial statements.

The cash-based plans are similar to the option plan, but involve payment of a cash sum on the successful satisfaction of the terms of the plans. None include the issue of shares as is the case under the option plan. The first cash-based plan was established in November 2003 and mirrors the workings and economic effect of the previous option plan. The second and third cash-based incentive plans have been utilised in 2003, 2005, 2006, 2007 and 2008. One component involves the deemed allocation of shares at prevailing market value at the time of issue. The value of the shares is paid to the executive after three years' qualifying service at market rate prevailing at the time, less the appropriate tax. Ordinary dividends are not taken into account. The second component involves the deemed allocation of options at prevailing market rates. The deemed exercise price is increased by the company's cost of equity each year, less dividends paid. Any benefit above the deemed exercise price is payable in cash, less tax, three to six years after allocation.

The fourth cash-based incentive plan was utilised in 2009 and involved 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 per cent 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.

The fifth 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 total shareholder return is equal to or greater than a compound annual pre-tax rate of 12% per annum. Mr Moutter does not participate in any of the other four cash-based plans discussed above.

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 Website.

Corporate governance (continued)

For the year ended 30 June 2010

The company also has 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 27 of the notes to the financial statements.

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

The salary packages of the five most highly paid employees of the company during the year are outlined in the table below:

Name	Base salary and benefits	Short-term incentive	Long-term incentive	Total
Simon Moutter	$833,665	$464,000		$1,297,665
Anthony Gollin	$367,248	$143,259	$43,182	$553,689
Peter Alexander	$347,978	$142,494		$490,472
Charles Spillane	$307,034	$121,418		$428,452
Adrian Littlewood	$255,444	$94,650		$350,094

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 in order to comply with NZSX and ASX Listing Rules' 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 2001 dealing with the acquisition of shares (i.e. substantial holdings and takeovers).

Waivers granted by the NZX

The company was issued with the following waivers of NZX Listing Rules in the 12 months to 29 July 2010:

- Waiver of Listing Rule 11.1.1 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 Rules 5.4.1, 7.3.1, 7.10.1, 7.10.2 and 7.10.10 on 26 January 2010. Listing Rule 7.3.1 prohibits the issue of equity securities without approval by an ordinary resolution of shareholders. Listing Rule 7.10.1 requires letters of entitlement to be mailed to shareholders within five business days of the relevant record date. Listing Rule 7.10.2 requires a rights issue to be open for at least 12 business days from the day the last letter of entitlement is mailed. Listing Rule 7.10.10 requires that the issuer provide NZX with full details of any offer at least 5 business days before the record date for that offer. Listing Rule 5.4.1 provides that an issuer may only apply for a trading halt for a period not exceeding 2 business days. These waivers were issued to permit the company to carry out its February 2010 equity raising by means of an accelerated rights entitlement offer structure.
- Waiver of Listing Rule 7.11.1 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 2010.

Regulatory environment

The company is regulated by, amongst other things, the Airport Authorities Act 1966 and the Civil Aviation Act 1990. The company is an 'airport company' for the purposes of the Airport Authorities Act 1966. The company has consultation and disclosure obligations under the Airport Authorities Act 1966.

The company is obliged to comply with the Airport Authorities (Airport Companies Information Disclosure) Regulations 1999, with disclosure of 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 2010 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 company's 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 $12,000 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 2.4 cents in 2010 compared with 3.4 cents in 2009 and 9.2 cents in 2008.

Corporate governance (continued)

For the year ended 30 June 2010

Credit rating

As at 1 August 2010, the Standard & Poor's long-term debt rating for the company was A- Stable Outlook and the short-term debt rating was A-2.

Subsidiary company directors

Simon Moutter and Peter Alexander held office as directors of Auckland Airport Limited as at 30 June 2010.

Simon Moutter and Charles Spillane held office as directors of Auckland Airport Holdings Limited as at 30 June 2010.

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 28 October 2010 at 10.30 am.

Directors' holdings and disclosure of interests

Directors held interests in the following shares in the company as at 30 June 2010:

Anthony Frankham	Beneficially Owned	153,000
	Held By Associated Persons	33,995
Keith Turner		Nil
Marko Bogoievski (Alternate for Lloyd Morrison)	Held by Associated Persons	92,730,159
John Brabazon		Nil
Richard Didsbury	Held by Associated Persons	24,542
James Miller		22,801
Lloyd Morrison	Held by Associated Persons	92,730,159
Sir Henry van der Heyden		Nil
Joan Withers	Beneficially Owned	25,495

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:

Anthony Frankham

Chairman, New Zealand Experience Limited
Chairman, Rainbow's End Theme Park Limited

Keith Turner

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, DBB Capital Limited
Director, Kern River Oil Corporation in the United States
Director, Kaiwhata Forests Limited

Richard Didsbury

Director, Hobsonville Land Company Limited
Director, Kiwi Income Property Trust
Trustee, Tourism Auckland

Henry van der Heyden

Chairman, Fonterra Co-operative Group Limited
Director, Independent Egg Producers Limited
Director, King St Advertising Limited
Director, Elevation Capital Management Limited
Director, Northern Feed Mill Limited
Director, Manuka SA

James Miller

Director, Vector Limited
Director, Craigs Investment Partners Limited

Lloyd Morrison

Chairman, HRL Morrison & Company Limited
Chairman, Infratil Airports Europe Limited
Chairman, Morrison & Company Infrastructure Management Limited
Director, Infratil Limited
Director, Infratil Infrastructure Property Limited
Director, TrustPower Limited

Joan Withers

Chair, Mighty River Power Limited
Deputy Chair, Television New Zealand Limited

Remuneration of employees

Grouped below, in accordance with section 211(1)(g) of the Companies Act 1993, are the number of employees or former employees of the company, 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	13
$110,001 to $120,000	9
$120,001 to $130,000	3
$130,001 to $140,000	6
$140,001 to $150,000	6
$150,001 to $160,000	3
$160,001 to $170,000	1
$170,001 to $180,000	8
$180,001 to $200,000	4
$190,001 to $200,000	3
$200,001 to $210,000	1
$220,001 to $230,000	1
$260,001 to $270,000	1
$280,001 to $290,000	1
$290,001 to $300,000	2
$300,001 to $310,000	1
$340,001 to $350,000	1
$350,001 to $360,000	1
$420,001 to $430,000	1
$490,001 to $500,000	1
$550,001 to $560,000	1
$1,290,001 to $1,300,000	1
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Remuneration includes salary, performance bonuses, employer's contributions to superannuation, health and insurance plans, motor vehicle and other sundry benefits received in their capacity as employees.

The company has long-term incentives in place for senior executives for 2003, 2004, 2005, 2006, 2007, 2008 and 2009 (refer to note 27 in the financial statements); at balance date the value of these incentives was $2.000 million.

Shareholder information

For the year ended 30 June 2010

Distribution of ordinary shares and shareholders

As at 1 August 2010

Size of holding	Number of shareholders	%	Number of shares	%
1 to 1,000	3,260	6.34	1,900,469	0.15
1,001 to 5,000	33,593	65.35	70,265,595	5.36
5,001 to 10,000	6,505	12.65	46,005,018	3.51
10,001 to 100,000	7,717	15.01	177,196,435	13.52
100,001 and over	328	0.64	1,015,025,314	77.46
Total	51,403	100.00	1,310,392,831	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 2010 that they were substantial security holders in the company and held a ‘relevant interest’ in the number of ordinary shares shown below:

Substantial security holder	Number of shares in which ‘relevant interest’ is held	Date of notice
Auckland City Council	155,766,240	06.12.02
New Zealand Superannuation Fund Nominees Limited	123,944,305	28.01.10
Manukau City Council (through its wholly-owned subsidiary, Manukau City Investments Limited)	116,712,656	21.09.05
Manukau City Investments Limited	116,712,656	21.09.05
H.R.L. Morrison & Co Group Limited	87,275,444	10.11.09

The total number of voting securities on issue as at 1 August 2010 was 1,310,392,831.

Twenty largest shareholders

As at 1 August 2010

Shareholder	Number of shares	% of capital
New Zealand Central Securities Depository Limited[1]	524,095,341	40.00
Auckland City Council	165,501,630	12.63
Manukau City Investments Limited	130,419,384	9.95
Custodial Services Limited	25,934,149	1.98
J P Morgan Nominees Australia Limited	11,794,053	0.90
FNZ Custodians Limited	8,318,867	0.63
Private Nominees Limited	8,018,081	0.61
FNZ Custodians Limited	7,497,005	0.57
Citicorp Nominees Pty Limited	7,455,098	0.57
Custodial Services Limited	7,292,354	0.56
Investment Custodial Services Limited	5,450,765	0.42
National Nominees Limited	4,601,927	0.35
Masfen Securities Limited	4,437,919	0.34
RBC Dexia Investor Services Australia Nominees Pty Limited	4,072,049	0.31
Custodial Services Limited	4,005,139	0.31
Forsyth Barr Custodians Limited	3,980,358	0.30
Custodial Services Limited	3,888,003	0.30
JB Were (NZ) Nominees Limited	3,005,952	0.23
UBS Nominees Pty Limited	2,864,622	0.22
HSBC Custody Nominees (Australia) Limited	2,231,193	0.17

[1] New Zealand Central Securities Depository Limited (NZCSD) is a depository system which allows electronic trading of securities to members. As at 1 August 2010, the 10 largest shareholdings in the company held through NZCSD were:

Shareholder	Number of shares	% of capital
NZ Superannuation Fund Nominees Limited	132,927,508	25.36
HSBC Nominees (New Zealand) Limited	83,224,492	15.88
National Nominees New Zealand Limited	73,426,531	14.01
Accident Compensation Corporation	43,910,040	8.38
HSBC Nominees (New Zealand) Limited	33,011,967	6.30
Citibank Nominees (New Zealand) Limited	24,824,423	4.74
TEA Custodians Limited	24,569, 370	4.69
ANZ Nominees Limited	21,024,610	4.01
AMP Investments Strategic Equity Growth Fund	17,055,749	3.25
Premier Nominees Limited	15,326,164	2.92

Shareholder Information

For the year ended 30 June 2010

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

Please note that the annual meeting will be held at 10.30 am on 28 October 2010 this year 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 ASX and NZSX Listing Rules.

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 secretary at the registered office.

Stock exchanges

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 2010, 56 shareholders held fewer securities than a marketable parcel under the ASX Listing Rules.

Dividends

Shareholders may elect to have their dividends direct credited to their bank account. 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 2001 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) In general, 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% of the voting rights in the company or the increase of an existing holding of 20% or more of the voting rights in the company can only occur in certain permitted ways. These include a full takeover offer in accordance with the Takeovers Code, a partial takeover in accordance with the Takeovers Code, an acquisition approved by an ordinary resolution, an allotment approved by an ordinary resolution, a 'creeping' acquisition (in certain circumstances) or compulsory acquisition if a shareholder holds 90% 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% of the shares issued by the company or, if the overseas person already holds 25% 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

For the year ended 30 June 2010

Directors

Anthony Frankham, chair
Keith Turner, deputy chair
Marko Bogoievski (alternate for Lloyd Morrison)
John Brabazon
Richard Didsbury
James Miller
Lloyd Morrison
Sir Henry van der Heyden
Joan Withers

Senior management

Simon Moutter, chief executive
Peter Alexander, general manager property
Tony Gollin, chief operating officer aeronautical
Adrian Littlewood, general manager retail and commercial
Judy Nicholl, general manager human resources
Andrew Pirie, strategic communications advisor
Mary-Anne Powell, executive assistant to CEO, and office manager
Simon Robertson, chief financial officer
Charles Spillane, general manager corporate affairs
Glenn Wedlock, general manager aeronautical business development

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 2010 and is signed on behalf of the board by:

Anthony Frankham
Chairman of the board

Keith Turner
Director

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.

Cover and editorial
Alpine Coated is made up of PEFC fibre and virgin fibre from tree farms. Manufactured under ISO 14001 certification, the pulp is Elemental Chlorine Free (ECF).

For more info: www.spicerspaper.co.nz

Financials
Advance Laser is produced using farmed eucalyptus trees. The farmed eucalyptus trees used for production are harvested within 5 years - unlike conventional methods where other tree species may take between 15-25 years.

- Element Chlorine Free (ECF)
- ISO 14001
- Nordic Swan
- Farmed Trees
- Plantation Fibre

For more info: www.bjball.co.nz

PLEASE RECYCLE ME