Annual Report 05_06

Adelaide Airport

a vibrant modern
spacious
new terminal

corporate information

Chairman
David Munt

Managing Director
Phil Baker

Directors
John McDonald
Alan Mulgrew
John Rickus
Graham Scott
James Tolhurst
John Ward

Solicitors
Thomson Playford

Auditors
PricewaterhouseCoopers

Registered Office
1 James Schofield Drive
Adelaide Airport
South Australia 5950
Phone: +61 8 8308 9211
Fax: +61 8 8308 9311
Email: airport@aal.com.au
Website: www.aal.com.au

The Company

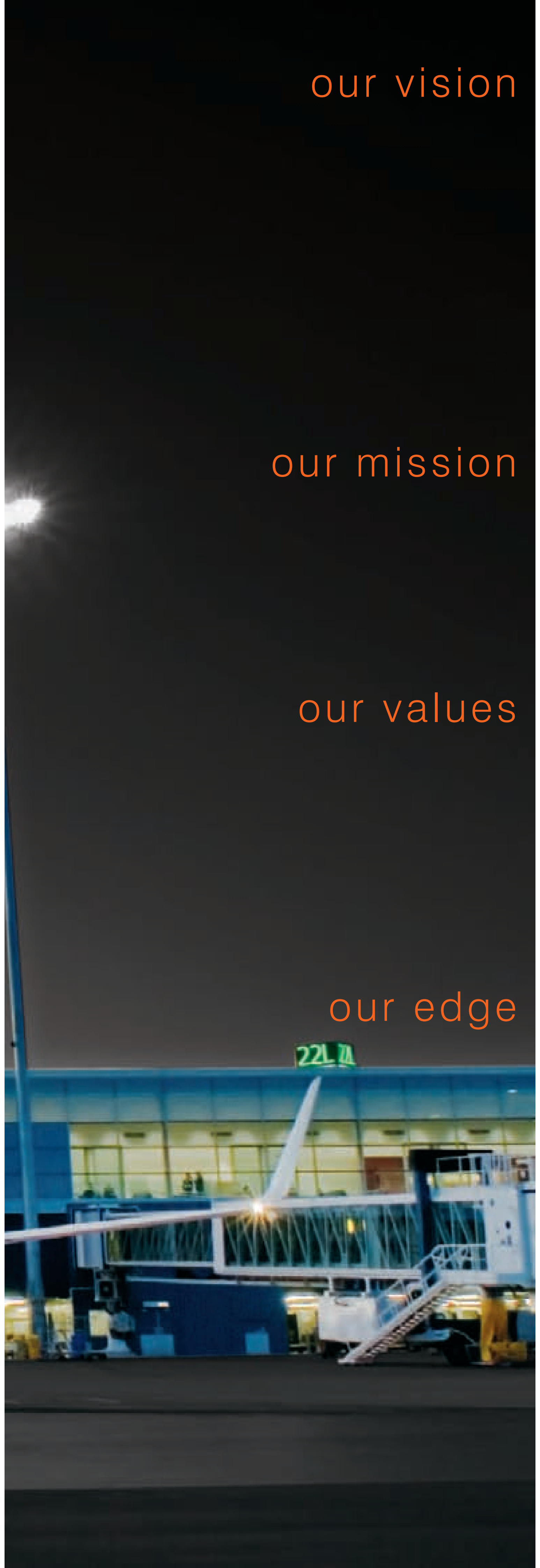
Adelaide Airport Limited (AAL) purchased the operating lease for Adelaide and Parafield Airports in May 1998, to operate the airports for the next 50 years with an option for a further 49 years. Adelaide Airport is the sixth largest international and fourth largest domestic airport in Australia. It is the aviation gateway to South Australia and handled over 5.8 million passengers in the 2005 / 2006 financial year. Parafield Airport is South Australia's premier general aviation airport and is a major international training airport.

Shareholders

UniSuper Ltd	38.51%
Motor Traders Association of Australia Superannuation Fund Pty Ltd	28.35%
Local Government Superannuation Board	16.15%
Others	16.99%

Subsidiaries

100% Parafield Airport Limited
100% Adelaide Airport Management Limited
100% New Terminal Financing Company Pty Limited
100% New Terminal Construction Company Pty Limited



our vision

Adelaide Airport will be a successful, modern, vibrant Centre and Gateway, promoting the economic benefits and cultural experience of South Australia.

Customer service, critical to our success, will be provided at the highest levels to our community and stakeholders.

Our people will be continuously developed to provide them with the requisite skills and experience to perform their duties efficiently.

The environment, safety and security remain paramount.

our mission

AAL develops and operates Adelaide and Parafield Airports as a business enterprise. We deliver safe and efficient facilities for passengers, aircraft, freight and property services for tenants and retailers, alongside general commercial developments.

our values

We will:

conduct ourselves with integrity in a responsible manner.

be efficient and practical.

remain open and friendly.

be responsive and respectful.

consistently behaving in a positive manner.

our edge

We will thrive:

by making timely and effective decisions.

by developing innovative solutions.

through clear and consistent communication with all stakeholders.

chairman's report

The past year has been highlighted by the realisation of plans and projects which will firmly position Adelaide Airport Limited for a prosperous future while providing a significant contribution to the State's forecast economic resurgence.

The new $260 million terminal (T1) was completed and progressively commissioned during the year, earning a Top 10 rating from international travellers in a global benchmarking survey undertaken by international industry body ACI in only its first three months of operation.

Already, the terminal has shown its capacity to easily manage record numbers of passengers - over 5.8 million in 2005-06. We expect passenger numbers to continue to grow as people are drawn to the State in support of South Australia's burgeoning defence and mining industries. This will also be enhanced by visitors to imminent events including the World Police and Fire Games, Clipsal 500 and the Rugby Sevens competition.

Record numbers of people are visiting the Adelaide Airport precinct for other reasons.

The completion of the IKEA superstore and the extension of Harbour Town Shopping Centre are drawing shoppers from across the metropolitan area while the development of new commercial premises are also significantly building the level of economic activity in the precinct.

Record numbers of people work on the Airport. An employment survey commissioned by AAL in July showed that more than 5,070 people (full time equivalent) are employed on-site and 2,666 off-site supporting entities operating at Adelaide Airport.

AAL's strategic strengthening of non-aeronautical activities is particularly significant in shaping the future sustainability of our business in the face of challenges to our industry world-wide. In particular, the potential negative impact of heightened security risks and rising fuel prices on aeronautical operations.

They are also a positive endorsement of the planning and persistence of the AAL Board, and AAL management and staff and provide a very firm foundation on which we can continue to build the value of our business and generate returns for our shareholders - and all South Australians - in the face of that uncertainty.

AAL continues to play a significant role in directly supporting its local community. I am pleased to note that the organisation has provided approximately $100,000 to local organisations particularly supporting young people. In addition AAL has provided extensive parcels of land to the City of West Torrens for the establishment of linear parks for community benefit and stormwater management.

As AAL looks back on the achievements of the past 12 months, it can look forward with confidence. A firm foundation for the future has been established.

DAVID MUNT - Chairman

year in brief

Financial results

- Revenue from operations - $99.676 million (Last Year $71.172 million)
- Earnings before interest, tax, depreciation and amortization and fair value adjustment of investment properties $58.639 million (last year $43.456 million)
- Net loss after tax of $11.067 million (last year net profit after tax of $9.902 million)
- Dividends on redeemable preference shares $26.214 million (last year $17.311 million)
- Credit Rating improved (BBB- / Stable; Baa3 / Positive)
- Converted to Australian equivalents to International Financial Reporting Standards.

Statutory Compliance

- New documentation to reflect reviewed safety legislation.
- New Security Program drafted to meet the requirements of revised security legislation.
- Safety and Security regulatory audit compliance maintained
- Airport Certification achieved replacing previous licence system.

Airport Operations

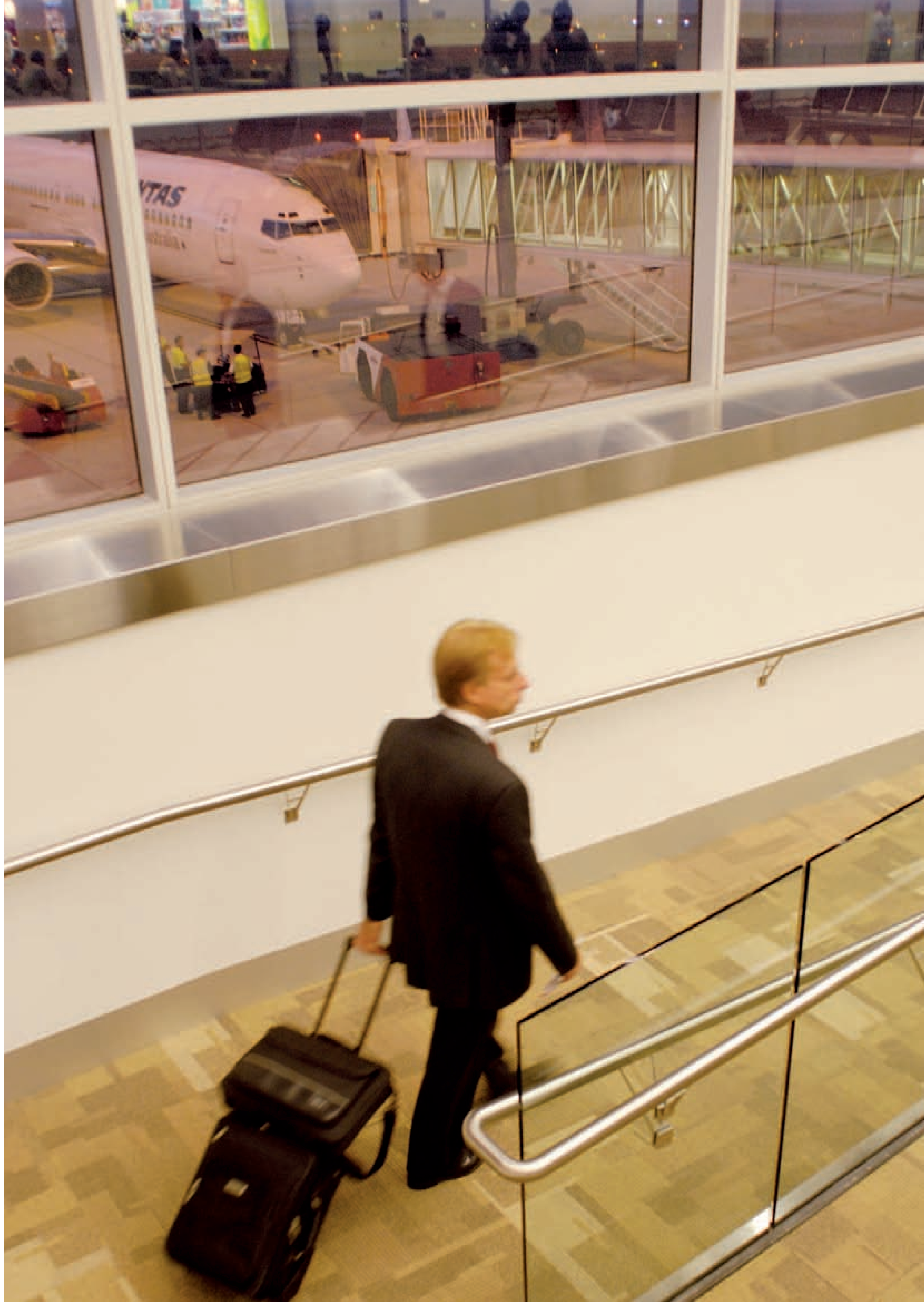
- Terminal 1 completed and opened
- Internal stormwater management system upgrade
- Perimeter fencing re-alignment and access control enhanced.
- Security improvements at Parafield commenced.

Property Development

- AQIS Regional Headquarters relocated to purpose built facility on airport
- Brand Direct Outlet at Harbour Town expanded
- IKEA Retail store opened
- Southern Cross Care Nursing Home commissioned
- Burbridge Business Park access points and significant internal infrastructure completed with two tenancies opened
- Helicopter operations commenced relocation with two operators taking up the new site
- Joint State Government and AAL traffic access studies Stage 1 and 2 completed

Other Notable Events

- Air New Zealand re-established non stop service to Auckland
- Achieved highest passenger numbers
- Recycled water reticulation expanded to include T1
- History Book of the first 50 years of Adelaide Airport produced
- 127,000 people visited the airport open weekend for the opening of T1
- Major Sponsorship of the SA Tourism Awards and SA Taxi Driver of the year



managing director's report

Several elements of the Company's longer term strategic plan came to fruition during the last twelve months, notably the completion of the new common-user terminal (T1). Whilst the opening was not without incident, due to last minute problems with the fuel system, those issues are well behind us and the terminal has been fully operational since February 06.

Apart from T1, a significant number of other buildings were also completed, including the IKEA superstore, extension of Harbour Town Shopping Centre, the Southern Cross Nursing Home, AQIS office block, warehouse developments in the Burbridge Business Park and the first of the helicopter hangar/ base relocations (to list just a few).

The skyline within the perimeter fence and airport access roads have forever changed, as predicted, with more to come in the reasonably near future, including a possible hotel, more offices, warehouses and hangars, complemented by development areas set aside for drainage and additional recreational development.

Parafield Airport's commercial precinct continues to expand with new tenancies and the Airport security upgrade has commenced through new apron lighting, CCTV and electronic access controls.

Aeronautical operations of course remain the key focus of the business and the opening of the new facility coincided with significant traffic growth in all segments of the passenger market. Records were achieved in international (+9.8%), domestic (+7.2%) and regional (+9.2%) sectors, leading to a new aggregate all time high total of just over 5.8 million passengers (+7.5%).

Domestic travel in isolation broke through the 5 million passenger mark for the first time in the airport's history.

Despite total air freight export tonnages generated in South Australia falling slightly, the volume handled through the airport grew by 5.8% over last year, or 38.9% of the total produced (up by 7.2%).

The dynamic nature of the industry continued to be ably demonstrated with many positive and a few negative highlights over the year. In the international arena, Singapore Airlines introduced daily services, Cathay Pacific doubled frequency, Air New Zealand reintroduced services, Qantas rescheduled to all non-stop operations and Malaysia Airlines increased capacity. On the other hand, Air Paradise ceased operations to Bali fairly early in the period and Garuda have indicated that they will follow suit early in the new fiscal year.

Jetstar was the major mover in the domestic market with several more flights including two aircraft based locally and a couple of brand new destinations added to the airport network. Regionally, Regional Express (Rex) significantly and O'Connor Airlines introduced additional capacity, whereas Emu and Airlines of South Australia were replaced by Qantaslink, who in turn ceased operations after only a few months.

All of our staff attended Customer Care training prior to the opening of the new terminal, which led on to a close liaison with TAFESA and most staff achieving Certificate II in Tourism Operations. Several staff have subsequently signed up to continue their studies in their own time. Continuing the enhanced service quality ethic, a number of volunteer 'ambassadors' were also recruited to assist the public find their way and provide information in T1. A static information counter was also incorporated in a joint venture with SATC and a 'welcome' desk has also been provided for use as required for events, meetings, connections, conferences etc.

We are very pleased with the initial public response to the internationally renowned quality of service surveys which have placed the airport high on the league table in our region and consistently first in Australia on a range of criteria. Our future focus is to at least maintain or where possible improve our current ratings.

Looking ahead on a wider spectrum, the constant need for vigilance in security matters has not diminished. We also need to be pro-actively addressing environmental responsibilities. However, we remain confident in the ability of our teams to meet these challenges going forward.

PHIL BAKER - Managing Director

history book

Various books have been written in respect of the airport, its location and different operators. However, with the advent of the new terminal opening in the 50th year of operations AAL proposed to develop a history of the airport to satisfy both the opening and a chronological record of the airport's existence.

To undertake the research, preparation and printing of the history, AAL contacted the three Universities of South Australia and in each case we were referred to a Mr Peter Donovan, Historian, as the best in South Australia to project manage the work.

His concept was to provide a comprehensive history of the airport site from pre European settlement through to the current operations and finish with a projection on the next fifty years.

Mr Donovan has completed a wide range of historical records and books across a wide range of topics and complexities including aviation related works.

Peter Donovan & Associates presented the History of Adelaide Airport "From Tin Shed to Glass Showcase" in conjunction with the publishers, Hyde Park Press in time for the launch of the new terminal. The quality of the production was recognised at the 23rd National Print Awards where Donovan & Associates and Hyde Park Press received the Silver Award from their peers.

The history of the airport and the new terminal both are presented to a high standard.

the launch

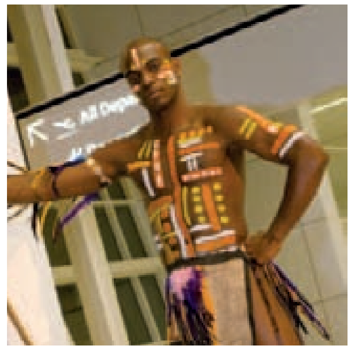
A fabulous array of events ensured the possibility that as many South Australians as possible were able to tour Adelaide's new front door, in the weeks leading up to its October, 2005 opening.

Two public open days in an aviation inspired carnival atmosphere showcased the new terminal, and attracted more than 120,000 South Australians, in the lead-up to the opening.

In addition to the open days the events leading up to the official opening were:

- August 15 - A Neighbours Preview attracted more than 1000 people.
- September 12 - Attended by family and Friends of the Workers involved with the construction of the new terminal
- September 26 - Breakfast briefing and tours for the Taxi Industry were held
- October 5 - Advertiser Sunday Mail Foundation 'SA Fashion Take off the Adelaide Runway' fashion parade and cocktail function for more than 600 guests.
- October 6 - Opening dinner supporting SA charities for up to 1000 guests.
- October 7 - Official opening ceremony and VIP Luncheon with Prime Minister John Howard in attendance.
- October 8 and 9 - Public open days that attracted more than 120,000 South Australians.

South Australian Premier Mike Rann and the State Government supported the opening event schedule through the provision of event-specific public transport ensuring easy access to events for visitors from across Adelaide and ensured no traffic congestion or aircraft delays.



operations

Aeronautical traffic performance

	Financial Year 2001/02	Financial Year 2002/03	Financial Year 2003/04	Financial Year 2004/05	Financial Year 2005/06	Change this Year %
PASSENGERS						
Domestic	3,646,679	3,874,801	4,337,527	4,683,547	5,019,377	7.2%
International including transits	283,748	256,422	289,006	351,549	385,929	9.8%
Regional	251,746	303,088	343,788	377,849	412,711	9.2%
Total Passengers	**4,182,173**	**4,434,311**	**4,970,321**	**5,412,945**	**5,818,017**	**7.5%**
AIRCRAFT MOVEMENTS						
Regular Public Transport	67,367	69,012	65,075	70,932	70,284	-1.0%
General Aviation	28,838	27,924	28,612	28,173	27,999	-0.6%
Total Aircraft Movements	**96,205**	**96,936**	**93,687**	**99,105**	**98,283**	**-0.8%**
LANDED TONNES						
Total Landed Tonnes	**1,642,507**	**1,623,480**	**1,702,939**	**1,885,001**	**2,033,522**	**7.9%**

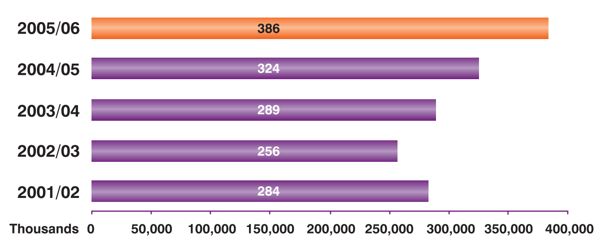
Freight

	Export Kgs	Import Kgs
Jan - Dec 04	7,196,625	7,907,010
Jan - Dec 05	**7,817,606**	**9,075,062**
	+ 8.3%	**+15.1%**

International Passengers

- Overall the international market maintained a healthy growth rate of 9.8%
- Singapore Airlines increased their services to a daily operation to Singapore
- Air New Zealand recommenced operations to Auckland in March after a considerable absence, with 3 direct services per week offering one-stop connections to the USA
- Cathay Pacific doubled their services to Hong Kong to 4 per week
- Regrettably Air Paradise ceased operations in November 05 following the companies' insolvency
- Nevertheless there still remain significant opportunities for increased international activity and Adelaide Airport is vigorously pursuing these options

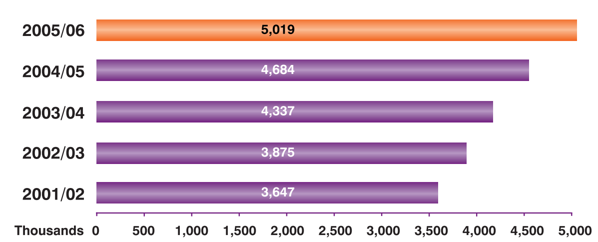
International Passengers



Domestic

Qantas and Virgin Blue maintained their strong performance in the domestic markets and new offerings by Jetstar, with services to Hamilton Island and Maroochydore (Sunshine Coast) introduced in March, following on from their successful start-up in early 2005, contributed to the overall domestic market growing by 7.2%.

Domestic Passengers



Regional

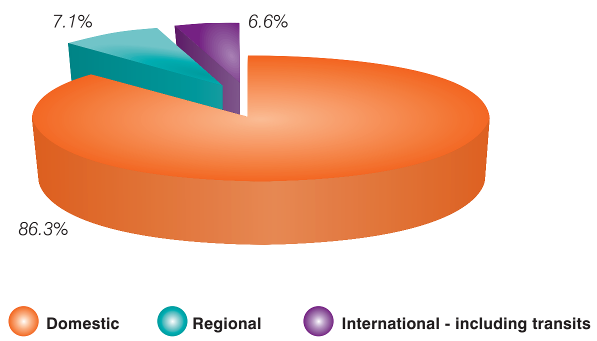
The regional market continued to perform well with a growth of 9.2% driven by strong performances from Rex and O'Connor. This was in spite of the short-lived Qantaslink operation to Port Lincoln and Kangaroo Island that operated for barely 2 months.

Quality of Service

With the opening of T1, Adelaide Airport Limited joined the Airport Council International (ACI) Quarterly Quality of Service peer comparison survey program and set ourselves a target of being in the top three of our airport size in the world.

Quarter on quarter we have achieved our target as indicated in the following table of the April to June 06 quarter results:

Passenger by type

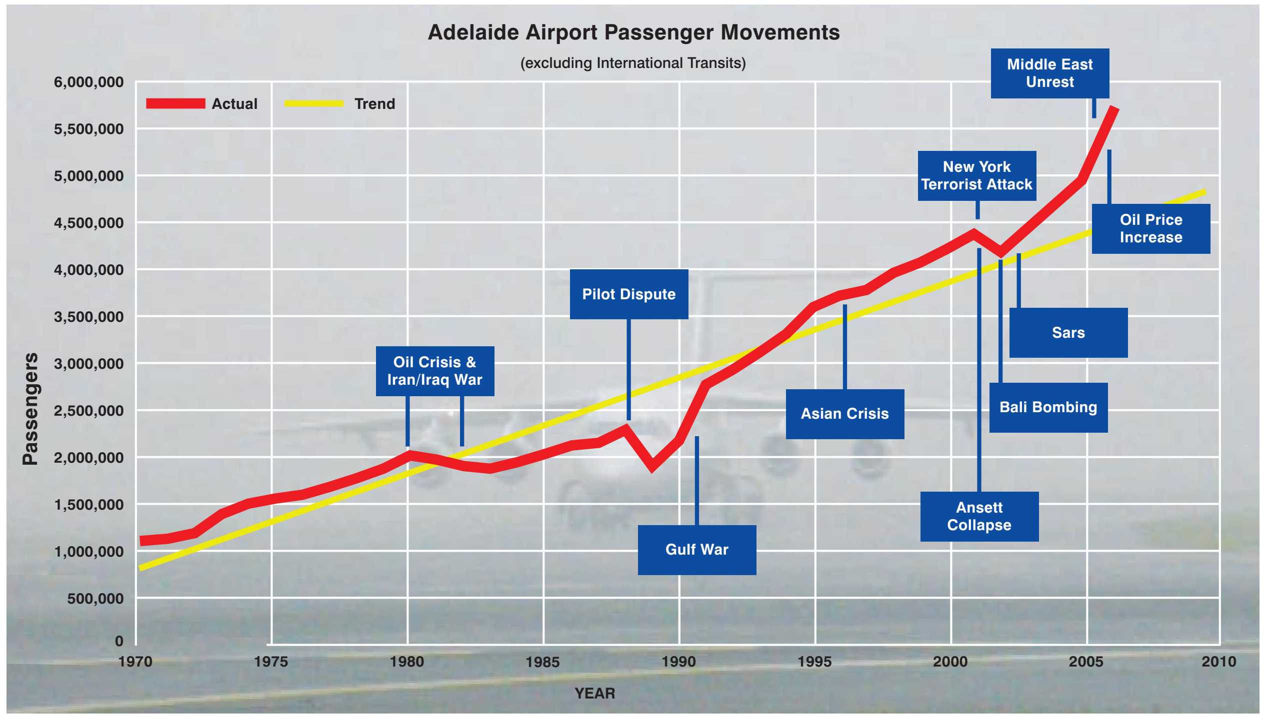


Domestic

Category	AAL Ranking (5 excellent to 1 poor)	World Average Year	World Ranking Total	World Ranking Our Size
Overall satisfaction with airport - all pax	3.89	3.63	13	3
Overall satisfaction with airport - business	3.91	3.53	5	2
Overall satisfaction with airport - leisure	3.87	3.73	17	4

International

Category	AAL Ranking (5 excellent to 1 poor)	World Average Year	World Ranking Total	World Ranking Our Size
Overall satisfaction with airport - all pax	4.04	3.78	11	2
Overall satisfaction with airport - business	3.5	3.64	44	13
Overall satisfaction with airport - leisure	4.08	3.83	11	2



property development

New Developments

The 12 month period up until 30 June, 2006 entailed a concentrated effort in completing development on leases committed previously, including substantial supportive infrastructure by AAL and private investment funds amounting to over half a billion dollars.

AQIS - South Australian Regional Office

Construction of the new South Australian Regional Office for the Australian Quarantine and Inspection Service (AQIS) reached practical completion in August 2005, following which AQIS undertook tenancy fitout of the 2,298m², 2 level Office/Administrative building and took up occupation on 28th October, 2005. The premises were officially opened by Minister McGuaran (Minister for Agriculture, Food, Fisheries and Forests) on 14 December, 2005.

Burbridge Business Park

After entering into a development agreement with Australand Holdings Ltd and Commercial and Industrial Property Pty Ltd (Australand\CIP) in December, 2004 to jointly develop Burbridge Business Park, AAL began the Stage 1 infrastructure and services adjacent to the Oil Storage Facility in April, 2005, and completed internal roadway infrastructure, security fencing, water and sewerage treatment in October, 2005.

As part of the Stage 1 Infrastructure works, the construction of 2 access junctions into Burbridge Business Park directly from Sir Donald Bradman Drive was commenced in April, 2006, with the easterly entry being signalised and allowing direct access for petrol tankers to the existing Oil Storage Facility. All Stage 1 Infrastructure works are due for completion in October, 2006.

The City of West Torrens commenced construction of stormwater benching under a Site License Agreement with AAL over some 6 Hectares of Airport buffer land alongside Sir Donald Bradman Drive, and into West Beach, in April 2006, with this land provided by AAL to form a linear park at the perimeter of Burbridge Business Park, as well as providing floodwater mitigation benefit to the surrounding community.

Australand/CIP also completed 2 Office/Warehouse developments during the financial year for "Cheap as Chips" (16,000m²) and "Toll Priority" (8,000m²).

Harbour Town Expansion

Extensions to the Harbour Town Brand Direct Outlet Centre on Sir Reginald Ansett Drive amounting to 7,500m² and comprising a further 30 specialty shops over the existing 65 shops, were completed in October, 2005 including further car parking for 450 vehicles.

Helicopter Operations

Australian Helicopters Pty Ltd commenced emergency services helicopter operations at its new premises in Sir Reginald Ansett Drive in December, 2005, with its new complex officially opened on 26 May, 2006 by Paul Holloway the State Police Minister. CHC Helicopters also committed to a site lease in conjunction with the new helicopter facilities and commenced construction of a new helicopter hangar/ maintenance facility due for completion by the end of 2006. AAL completed associated helicopter hoverways and helipads in the new Helicopter Precincts.

IKEA

Following Major Development approval of a $40 million IKEA store by the Minister for Transport and Regional Services in January, 2005 a ground lease was completed with Lex Property Management Ltd in March, 2005 for the development of a 24,000m² IKEA store on a 6 Hectare site alongside the main entrance to the Airport at Sir Donald Bradman Drive and Sir Richard Williams Avenue.

This development was completed in April, 2006 and commenced trading on 20 April, 2006 after being officially opened by the Premier of South Australia, Mr M Rann.

Low Care Aged Facility - Southern Cross Care Inc

The 40 bed low care aged facility on Airport land on Burbridge Road, West Beach was completed and officially opened in December, 2005 by the Honourable Julie Bishop, Minister for Ageing. Further expansion occurred immediately afterwards to increase the capacity by 20 beds, with these works completed in August, 2006.

Airport East

An existing 5,000m² Office/Warehouse occupied by LG was expanded by 2,100m² and completed in March, 2006, with the works including landscaping enhancement of an adjacent reserve on Airport land under license to the City of West Torrens.

Airport Traffic Access Study

An Adelaide Airport Traffic Access Study was commissioned jointly by the State Department of Transport, Energy and Infrastructure and AAL, with the contract undertaken by Murray F Young and Associates. Stage 1 for access points into the Airport land along Sir Donald Bradman Drive was approved by the State Minister for Transport in late 2005, which enabled major signalised access points directly to the IKEA store and Burbridge Business Park and several other direct entrance-ways.

The second stage was directed at accessibility to Airport land along Tapleys Hill Road with several options recognised for future development in the vicinity of Harbour Town and the Helicopter Precinct. The final stage focused on Airport Access along the eastern and southern sides of Adelaide Airport, with this expected to go out for public consultation in 2006/2007.

Aged Care Facility

New Terminal Retailing & Concessions

To coincide with the completion and transition of international and domestic air services to Terminal 1 (T1), retailing concessions for Duty Free, Food and Beverage services, Newsagency and general retail were initiated, subsequent to retail fitout undertaken during the final stages of T1 construction. Similarly advertising, telephone and ATM banking concessions were let, along with Rent-a-Car services.

The 4 month transition period between the operation of International and Domestic air services in T1 required the utmost co-operation of the retailers and the partnering principles employed proved very successful.

Airport Police Station

The Australian Federal Police secured a lease over an existing building adjacent to T1 for the centralisation of an increased Airport Police Contingent on Airport, with AAL and the Commonwealth carrying out building improvements for this specialised activity.

The Retailing Concessions include:

Duty Free Stores Australia Pty Ltd	Duty Free
Delaware North Retail Services Pty Ltd	Cibo & various Food & Beverage Concessions
Hudsons Adelaide Airport Pty Ltd	Hudsons Food & Beverage Outlets
Coco Bean Pty Ltd	Cocolat & Wicked Desserts
Hachetts Distribution Services (Newslink Group)	Newsagency & Gifts
Purely Australian Clothing Co Pty Ltd	Fashion (Purely Merino)
Coopers Brewery Ltd	Coopers General Store
AWPL Pty Ltd	Australian Way Souvenirs
Shades Shop Pty Ltd	Sunglasses
Eyecorp Ltd	Advertising
Adelaide Bank, ANZ Bank, and CPS Credit Union	ATM Services
Tritel Aust Pty Ltd	Public Telephones
Avis, Budget, Europcar, Hertz & Thrifty	Rent-a-Car Concessions
Tourism SA	Tourist Information

parafield airport

Renewed confidence in the GA industry saw aircraft movements up 12% - from 166,712 in 04/05 to 186,740 in 05/06 - during tower hours 0800 to 1800 each day.

Lease of further land for bulky goods retail development for the Sleep Centre on Lot 1 and Rug & Mattress Warehouse and Shoe Shed on Lot 8. Construction Fastener experts, Infix, have also moved into the estate.

Federal Minister for Transport and Regional Services, Warren Truss announced funding ($2 million) for the enhanced security measures at Parafield Airport at a press conference held in the Management Centre on the 20th of February 2006.

Legal documentation is being formulated for the lease of land for the Mawson Connector across the airport's southern boundary with negotiations ongoing between Department of Transport Energy and Infrastructure, Mawson Lakes joint venture partners and the City of Salisbury, which should see the eventual transfer of the road corridor from the Commonwealth to the State.

Flight Training Adelaide, who currently accommodate up to 190 student pilots from various airlines, have announced that they have been successful in securing new long term flying training contracts, including the training of 40 JAL Express pilots a year for the next 5 years. FTA will be at their capacity in the near future and have constructed additional flight training offices within their hangar.

Other training schools based at Parafield Airport have also shown some steady growth and include the University of Adelaide Aviation Academy, Adelaide Flight Training Centre, Bruce Hartwig Flying School, Central Aircrew Training, Air South and Aero-power Helicopter Training.

Local tenant Mincham Aviation, currently fit-out all RFDS aircraft and has recently been successful in securing some Defence contracts to produce highly-specialised aviation composite products.

Removal of the roundabout and construction of the T-junction in the Commercial Estate - at the corner of Lawrence Hargrave Way and Horrie Miller Avenue was completed with improved traffic flows and improved access for larger vehicles.

Airside works to movement areas including drainage earthworks, grading of shoulders and primer sealing have been completed.

board of directors

John McDonald
Dip Tech, FCA, FASA, CPA, FIAA

Non-executive Director,
appointed 29 July 1998
Member Property Development
and Building Committee

John Rickus
B.Ec, FAICD

Non-executive Director,
appointed 1 September 1998
Chairman Audit & Compliance Committee
Member Remuneration Committee
Member Property Development
and Building Committee

Alan Mulgrew
B.A(Mgmt), Dip Corp Fin, J.P., GRAICD

Non-executive Director,
appointed 6 September 2006
Member Property Development
and Building Committee

David Munt
LL.B(Hons)

Non-executive Director and Chairman,
appointed 30 June 2004
Chairman Remuneration Committee
Chairman Property Development
and Building Committee

Phil Baker
FCILT, FAICD

Managing Director,
appointed 24 April 1998
Member Property Development
and Building Committee

John Ward
BSc, FAICD, FAIM, FAMI, FCILT

Non-executive Director,
appointed 28 August 2002
Member Remuneration Committee
Member Property Development
and Building Committee

Graham Scott
B.Ec(Hons)

Non-executive Director,
appointed 24 April 1998,
AAL's First Chairman from
24 April 1998 to 30 June 2004
Member Audit & Compliance Committee
Member Property Development
and Building Committee

James Tolhurst
B.Comms, MBA, FCPA, FCIS, FAICD

Non-executive Director,
appointed 29 September 2004.
Member Audit & Compliance Committee
Member Remuneration Committee
Member Property Development
and Building Committee

executives

Phil Baker
Managing Director

Manages corporate groups. Responsible for implementing group strategies and policies and a member of the Board.

Mark Young
Chief Financial Officer

Implements and manages procedures and policies to ensure the sound financial position and commercially prudent conduct of the business including effective reporting and information management systems and stakeholder communications.

Sue Doyle
Office Manager and PA to the MD

Provides administration and secretarial support to the Board of Directors and Managing Director with significant accountability for the development of staff, human resource policies and service levels to customers.

Malcolm Andrews
Manager Business Development

Responsible for Route marketing and development, airline liaison, customer relations, facilitation, product enhancement and ground transportation.

Len Goff
Company Secretary

Responsible for corporate administration, accounting, statutory and regulatory financial reporting.

Vince Scanlon
Manager Airport Operations

Responsible for aviation safety, security and regulatory compliance, terminals and carpark operations, infrastructure and facility management, project management and engineering of both aviation and commercial developments.

Ken May
Manager Property Development

Responsible for the management and enhancement of the property portfolio including retail, leasing, property development and tenancy management.

John McArdle
Manager Corporate Affairs

Manages interprets and influences where applicable, the community consultation communication regulatory and statutory responsibilities. Facilitates corporate risk policy and review.

our people

A major objective during the year was to undertake a review of the culture that existed within our workplace.

Independent staff surveys identified the specific issues and areas requiring improvement.

A series of planning meetings were held with senior staff of the Adelaide TAFE to identify what specific course was available to address the issues of concern.

A workplace specific program of competencies was developed and all staff from the MD to the latest recruit have undertaken the Certificate II in Tourism Operations.

Complementing the cultural and service studies AAL also improved its staff development program and induction procedures. The outcome has been a marked improvement in the development of a team ethic, retention of staff and a visible enhancement of our developing culture.

AAL by choice does not have a dedicated Human Resource division but expects that all managers and supervisors bring those competencies to the work place. A recruitment and interview training program was introduced and provided to relevant managers and supervisors to ensure selection of the best talent.

To support this policy and following a comprehensive internal consultation program, our Human Resource Manual was completely overhauled and re-issued.

Staff welfare continues to be a priority and is supported by the external ITIM Chaplaincy contract. Various social events including the family of staff members are held during the year to foster the cultural improvement referred to above.

We were particularly pleased to be advised that following the mandated submission to the Commission, Adelaide Airport Limited was identified as compliant with the Equal Opportunity for Women in the Workplace Act for 2006.

The outcomes achieved in the workplace in the past 12 months and the progress we continue to achieve such as the establishing of an Equal Opportunity in Employment Committee, were given special mention by the Commission.

environment

Adelaide Airport Ltd is entering an exciting and challenging new phase in environmental management, underpinned by a corporate vision of sustainable development and a comprehensive Environment Strategy. The new terminal building, officially opened in October 2005, is a showcase for sustainable development and sets the environmental standard in Australia for aviation terminal design.

Sustainability Planning

The principles of sustainable development are integral to the airports' Environment Strategies and are realised in the design and operation of the newly-constructed Terminal One building. A key feature of the terminal is a building management system that maximises energy savings - and minimises greenhouse gas emissions - through smart and efficient control of air-conditioning, lighting and other powered devices in response to various factors such as ambient temperature, time of day, and passenger numbers and distribution. Other energy efficiency features include the dramatic utilisation of natural light throughout the terminal and aerobridges, use of mixed-mode air-conditioning and intelligent lighting systems, and installation of variable frequency drive plant equipment.

An estimated 300 million litres of precious mains water will be saved annually through the supply of high quality reclaimed water to all toilets within the building and the airport irrigation system. Water efficient design principles are also reflected in the exclusive use of local native flora species in the landscaped areas around the terminal building and car parks.

To help protect the downstream environment from spills, stormwater interceptor units have been installed beneath all car park and apron areas.

Environmental Regulation

Adelaide Airport Ltd's (AAL) Environment Policy commits to compliance with all relevant regulatory requirements and the Adelaide and Parafield Airport's 5-year Environment Strategies. Best practice environmental planning and management of construction projects is a key compliance focus. A comprehensive Construction Environmental Management Plan (EMP) was developed with and successfully implemented by the principal contractor on the Terminal One project resulting in no Authorisations or Environmental Protection Orders being issued to AAL. Similarly, no notices were issued for other major development projects - IKEA store, Burbridge Business Park (Stage 1), Australian Helicopters, Harbour Town (Stage 2), and AQIS building. AAL applied for, and was granted, an Authorisation to release impounded groundwater to the stormwater system as part of a City of West Torrens/AAL multi-million dollar stormwater drainage widening and upgrade project.

AAL has since driven the implementation of a detailed EMP - developed in close consultation with the Council, contractors, consultants and the Environment Protection Authority - to ensure that all commitments to environmental protection are met.

Tenant Environmental Management

AAL is committed to managing and developing Adelaide and Parafield Airports in a socially, economically and environmentally responsible manner. This cannot be achieved without effective relationships and partnering with major tenants. In a push to encourage closer collaboration and information sharing with our tenants, AAL established the Adelaide Airport Environment Group. The group meets quarterly to discuss common environmental issues and drive new initiatives, the first being the planning and development of an integrated airport waste management strategy. At the same time, AAL revamped its tenant auditing schedule and protocol increasing the number of inspections across Parafield and Adelaide airports by 100% resulting in more frequent interaction and more productive relationships.

Cross Keys Precinct Major Development Plan (MDP) - Parafield Airport

The draft MDP for the Cross Keys Precinct was approved by the Minister for Transport on 18 January 2005 subject to a range of critical environmental conditions, put in place to ensure adequate protection of the unique vernal pool habitat at Parafield Airport. The vernal pools - assigned "conservation" status by Parafield Airport Ltd (PAL) - will thrive alongside the Cross Keys development and the connecting Elder Smith Road. PAL has conducted a rigorous planning process, with support from the Department of Transport, Energy and Infrastructure and specialist consultants, to remediate, manage and monitor the biodiversity values of the vernal pools, as well as manage stormwater runoff, waste and noise-related issues.

the community

Adelaide Airport Limited (AAL) actively supports the communities where each of its airports are located. Given the proximity of the airports within the metropolitan urban sprawl the airports play a major role in employment and as significant economic drivers within the community.

AAL also has a commitment to informing the communities of developments and changes to the airports through a comprehensive speaking circuit program, regular newsletters, web site and active participation in the electronic media talk back segments.

Consequently AAL has, as a priority, a commitment to positive involvement with the local community, with a focus on supporting low profile and junior sporting programs. In addition to our on going support of Kylie Halliday, National and World Aerobics champion, a cross section of activities and sponsorships that we are involved in are detailed hereunder:

- The Smith Family;
- Flinders University Womens Soccer;
- Henley Beach Primary Special School;
- Fulham Sea Scouts;
- West Beach Junior Lifesaving Club;
- Thebarton Aquatic Centre;
- Western Warriors Football Club;
- West Torrens Eagles Softball Club;
- City of West Torrens Race Day;
- Little Athletics Salisbury;
- Parafield Gardens Soccer Club;
- Athletics SA.

AAL has provided West Torrens Council with extensive parcels of land on the eastern and southern boundaries of the Airport for the establishment of linear parks for community benefit.

We also provided a 40 metre wide strip of land along Sir Donald Bradman Drive and Tapleys Hill Road to assist Council in meeting its 1 in 100 year flood mitigation drain widening obligations to the West Torrens Thebarton drainage program.

We continue our association with major Tertiary institutions through the regular Quality of Service surveys undertaken by the graduating class of the Tourism and International studies school of the Adelaide TAFE and we are the major sponsor of the Graduation Ceremony for those students.

We were particularly proud to be the sponsor of Damien Ralphs from Tauondi College. Damien was the Aboriginal and Torres Strait Islander Student of the Year finalist in the SA Training Awards 2006.

Adelaide University continues its valuable safety program with us in the monitoring of bird and wildlife habitat to minimize adverse safety impacts with aircraft.

As an integral part of the tourism chain AAL is a willing supporter of the Taxi Driver of the Year Awards and a major sponsor of the SA Tourism Awards. We also support many charities through donating items of interest for auctions particularly for our major nominated charity the Royal Flying Doctor Service.

FINANCIAL RESULTS

The commencement of operations in Terminal 1 (T1) and the first time adoption of Australian equivalents to International Financial Reporting Standards (AIFRS) have significantly impacted the Financial Report this year.

INCOME STATEMENT (2006)	AGAAP			AIFRS		
Year ended 30 June	2002 $'000	2003 $'000	2004 $'000	2005 $'000	2006 $'000	Change This Year
Revenue						
Aeronautical	11,519	19,814	26,557	30,031	46,369	54.4%
Commercial Trading Revenue	10,653	11,264	13,442	14,853	17,643	18.8%
Property Revenue	20,181	18,897	20,350	23,092	24,437	5.8%
Other Revenue	639	521	99	390	5,718	1366.2%
Other Income	5	544	558	700	829	18.4%
Total Revenue	**42,997**	**51,040**	**61,006**	**69,066**	**94,996**	**37.5%**
Increments/(decrements) in fair value of investment properties	-	-	-	12,805	(2,278)	-117.8%
Operating Expenses	20,955	20,738	23,422	25,610	36,357	9.3%
Operating Profit before interest, depreciation, amortisation and income tax (EBITDA)	**22,042**	**30,302**	**37,584**	**56,261**	**56,361**	**0.2%**
Depreciation and Amortisation	10,752	11,694	11,436	7,364	15,211	106.6%
Borrowing Costs						
Net Interest Expense	17,724	17,000	18,168	17,710	26,900	51.9%
Interest on Airport Notes/Dividends on RPS	-	-	4,500	17,310	26,214	51.4%
Net Profit/(Loss) Before tax	**(6,434)**	**1,608**	**3,480**	**13,877**	**(11,964)**	**-186.2%**

The commencement of operations in T1 has had the following noteworthy impacts;

- The Passenger Facility Charge (PFC) is included in aeronautical revenue for the first time. The PFC is charged to airlines, under a 15 year agreement, based on the number of passengers using T1.
- Depreciation has increased;
- Interest on borrowings has increased, reflecting the increased borrowings to finance the construction of T1 and cessation of capitalisation;
- Services and Utilities expenses have increased;
- an increase in Commercial Trading revenue.

Earnings before interest, tax, depreciation, amortization and fair value adjustments on investment property has dropped marginally this year to 61.7% of total revenue (last year 62.9%) reflecting additional costs incurred during the protracted commencement of domestic operations in T1.

Dividends on Redeemable Preference Shares (RPS) increased to $26.2 million.

CASH FLOW (2006)

After funding increased interest on borrowings and increased dividends on RPS, cash flow from operating activities remained neutral.

The Group has funded, from its' free cash flow, the final payments on two significant property developments being a building for AQIS and the Stage 1 infrastructure for Burbridge Business Park.

After increased borrowings to fund T1 construction, the Group completed the year with a small decrease in cash reserves amounting to $53.4 million at year end. Of this balance $35.7 million is held in reserve accounts being debt service reserve and construction cost reserve.

AIFRS

The Group elected to apply AIFRS from its formation (business combination) in 1998, requiring the preparation of an opening AIFRS balance sheet at 1 July 2004 and then the restatement of the 2005 accounts.

The following is a summary of the major impacts on the June 2005 consolidated accounts. This summary is set out in greater detail in the notes to the accounts and must be read in conjunction with the notes to the accounts.

	$'000
Total Assets - June 2005 - AGAAP	698,817
Investment Property Fair Value Adj	103,980
Restate value of operating land	33,815
Net increase in value of operating assets	12,598
Net reduction in Intangible Assets (including creation of goodwill)	(16,262)
Other	41
Total Assets - June 2005 - AIFRS	832,989
Total Liabilities - June 2005 - AGAAP	680,093
Reclassify borrowing costs	(8,141)
Deferred Income Tax Liability	77,215
Total Liabilities - June 2005 - AIFRS	749,167
Total Equity - June 2005 - AGAAP	18,724
Movements per above	65,098
Total Equity - June 2005 - AIFRS	83,822

BALANCE SHEET (2006)		
Year ended 30 June	2005 $'000	2006 $'000
Cash	54,844	53,401
Total Assets	832,989	875,908
Interest Bearing Liabilities (excl stapled securities)	453,614	519,125
Total Liabilities (excl stapled securities)	561,231	618,353
Total Equity (plus Stapled Securities)	271,758	257,555

Total Assets have increased primarily as a result of the construction of T1 and acquisition of investment properties.

The Group is now recognising the tax benefit of tax losses given the probable certainty surrounding recoupment of deferred tax losses.

Total Liabilities reflect the increased borrowings to fund T1 construction and the first time 'mark to market' of interest rate hedges. The net after tax impact of the mark to market of interest rate hedges has been a $3.2 million reduction in reserves.

The Group's total of equity and RPS (being stapled securities) stands at $257.6 million at the end of the year.

OTHER MATTERS

Capital Structure

Subsequent to year end the Group refinanced the T1 construction finance facility with the issue, via lead managers Westpac and ANZ, of $265 million (fixed and floating) 10 year bonds credit wrapped to AAA by MBIA Insurance Corporation.

Combined with the existing borrowings the following summarises the capital structure post refinancing ;

Issue	Amount $'000	Term
Medium Term Note	$264,000	Dec 2010
Medium Term Note	$265,000	Sep 2016
Working Capital Facility ($18.0m available at year end)	$20,000	Nov 2008
RPS	$188,563	Jun 2014

Interest Rate Management

The Group manages its' exposure to interest rate fluctuations using interest rate swaps.

As part of the refinance that took place post balance date the Group topped up its' interest rate swap positions effectively fixing the interest rate on approximately 90% of outstanding debt to December 2015 (assuming the existing $264 note is refinanced in Dec '10) with 40% fixed thereafter to September 2016.

Ratings

The long term finance and business strategy of the Group continues to be reviewed by the rating agencies, Standard and Poors and Moodys.

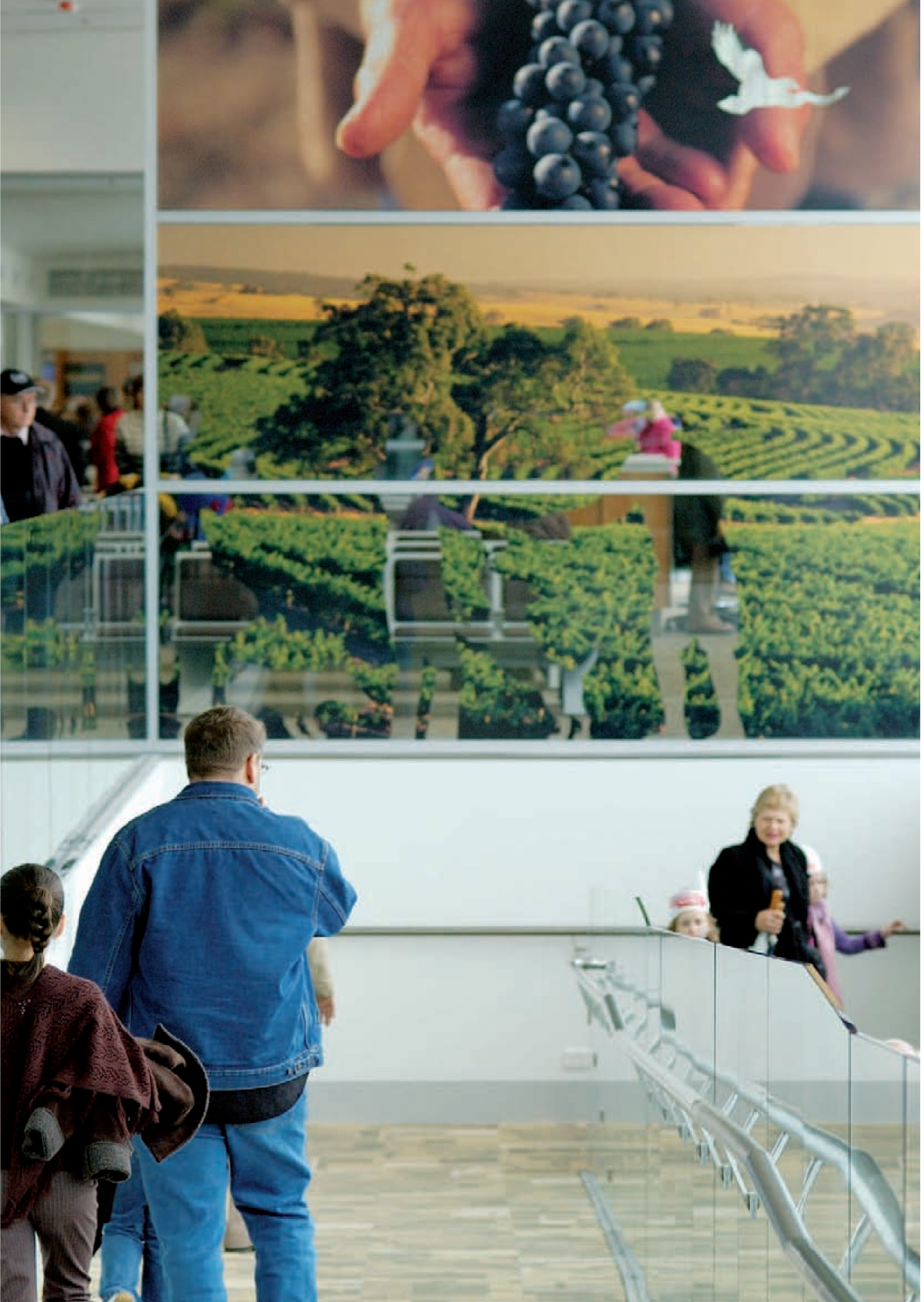
It was particularly pleasing to see the endorsement of the long term plan by an improvement in the Moodys rating moving from Baa3- / stable to Baa3- / positive.

Standard and Poors reaffirmed the Groups investment grade rating as BBB- / stable.

Business Systems

Following a full review of business requirements and available applications the Group has implemented new business systems during the year from the Technology One suite of products comprising the following modules;

- Finance One - general ledger and subsidiary creditor / debtor / fixed asset ledgers
- Proclaim - property management
- People One - payroll
- Work One - asset and work order management



corporate governance

Adelaide Airport Ltd and the Board are committed to achieving and demonstrating the highest standards of corporate governance.

The relationship between the Board and senior management is critical to the Group's long term success. The Directors are responsible for the performance of the company in both the short and the longer term and seek to balance sometimes competing objectives in the best interests of the Group as a whole. Their focus is to enhance the interests of shareholders and other key stakeholders and to ensure the Group is properly managed.

Day to day management of the Group's affairs and the implementation of the corporate strategy and policy initiatives are formally delegated by the Board to the Managing Director and senior executives as set out in the Group's delegations policy. These delegations are reviewed on an annual basis.

A description of the company's main corporate governance practices is set out below. All these practices, unless otherwise stated were in place for the entire year.

Board composition

In accordance with the Shareholders Agreement the Board comprises of a minimum of 4 and a maximum of 9 Directors (inclusive of the Managing Director). The maximum was increased from 8 to 9 from the date of the new Shareholders Agreement.

Each shareholder holding not less than 15% of the issued shares of the company is entitled to nominate one or more Directors depending on the total proportion of shares held to the shares on issue.

The Directors may appoint one of their number as Chairman or an independent Chairman who would become a Director if so appointed. The Chairman is required to meet regularly with the Managing Director.

The Board has the right to appoint Directors under the Company's Constitution.

The Board is required to undertake an annual Board performance review and consider the appropriate mix of skills required by the Board to maximise its effectiveness and its contribution to the Group.

Board responsibilities

The responsibilities of the Board include:

- Providing strategic guidance to the company including contributing to the development of and approving the corporate strategy
- Reviewing and approving business plans, the annual budget and financial plans including available resources and major capital expenditure initiatives within the financial limits set in the Shareholders Agreement Overseeing and monitoring
- Organisational performance and the achievement of the Group's strategic goals and objectives
- Compliance with the company's Code of Conduct
- Progress of major capital expenditures and other significant corporate projects including any acquisitions or divestments
- Monitoring financial performance including approval of the annual and half-year financial reports and liaison with the company's auditors
- Appointment, performance assessment and, if necessary removal of the Managing Director
- Ensuring there are effective management processes in place and approving major corporate initiatives
- Enhancing and protecting the reputation of the organisation
- Overseeing the operation of the Group's system for compliance and risk management reporting to shareholders.

Board members

Details of members of the Board, their experience, expertise, qualifications, term of office and independent status are set out in the Directors' report under the heading "Information on Directors". There are seven non-executive Directors and three alternate non-executive Directors.

Directors independence

Directors are appointed in accordance with the Shareholders Agreement by nomination of the shareholders, provision has been made in that agreement for the Directors to appoint a Chairman who is not one of their number who would as a consequence of that appointment become and be a Director. The Board opted to appoint a chairman on 30 June 2004 who is independent from the shareholders of the Company.

Non-executive Directors

The non-executive Directors are able to meet in scheduled sessions without the presence of management, to discuss the operation of the Board and a range of matters. Relevant matters arising from these meetings are to be shared with the full Board.

Term of office

Nominee Directors hold office at the discretion of the appointing shareholder. Other Directors are appointed on a term of three years.

It is recognised that lengthy service on the Board may impact on a Director's independence and therefore non-nominee Directors must retire from office no later than completion of four terms of office (12 years).

On attaining the age of 70 years, a Director will retire, by agreement at the next AGM.

Chairman

The Chairman is responsible for leading the Board, ensuring Directors are properly briefed in all matters relevant to their role and responsibilities, facilitating Board discussions and managing the Board's relationship with the company's senior executives.

Managing Director

The Managing Director is responsible for implementing Group strategies and policies.

Commitment

The Agreement requires that the Board meets at least once in each quarter of the financial year.

The Board held 11 Board meetings and an additional corporate strategy workshop during the year.

The number of meetings of the company's Board of Directors and of each Board committee held during each financial year and the number of meetings attended by each Director are set out in the Directors' report under the heading "Directors' Meetings" in the annual statutory accounts for the Group.

Conflicts of Interests

Mr D C Munt is a partner of Thomson Playford, solicitors who have provided legal services to Adelaide Airport Limited and certain of its controlled entities as described under note 35 to the financial statements. In accordance with his obligations under the Corporations Act Mr Munt has given a standing notice about his interest and has, in compliance with the Board Charter, taken no part in either discussions or decisions relating to the provision of legal services. Further Mr Munt has, in accordance with his undertakings to the Board, not been personally involved in the provision of any legal services by Thomson Playford to AAL or any of its subsidiaries.

The Directors shall comply with all of their obligations either at law or under the Corporations Act in relation to potential or actual conflicts of interest provided always that the other Directors (i.e. who do not have a conflict or material interest in the matter) shall be at liberty, subject to proper disclosure having been made, to resolve to permit the Director with the potential or actual conflict of interest to participate in discussions and voting on the matter giving rise to the conflict. In general terms the Directors shall deal with each matter of conflict on its merits.

Independent Professional Advice

The Directors, both individually or as a group, in furtherance of their duties, may seek and obtain independent legal and professional advice from external sources at the expense of the Company. Prior to seeking such advice Directors will seek the approval of the Chair, such approval not to be unreasonably withheld. Each Director has the right of access to all relevant Company information. A Director also has the right to have access to all documents which have been presented to meetings of the Board whilst in office, or made available in relation to their position as Director after ceasing to be a Director.

Performance Assessment

The Board undertakes an annual assessment of its collective performance, the performance of the Chairman and of its committees.

The Chairman undertakes an annual assessment of the performance of individual Directors and meets privately with each Director to discuss his assessment.

Corporate Reporting

The Managing Director and CFO have made the following certifications to the Board:

- That the company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the company and Group and are in accordance with the relevant accounting standards.
- That the above statement is founded on a sound system of risk management and internal compliance and control and which implements the policies adopted by the Board and that the company's risk management and internal compliance and control is operating efficiently and effectively in all material respects.

Board Committees

The Board has established a number of committees to assist in the execution of its duties and to allow detailed consideration of complex issues, current committees of the Board are the remuneration, audit and compliance, property development and building committees. The committee structure and membership is reviewed on an annual basis. A policy of rotation of committee members applies.

Each committee has its own written charter setting out its role and responsibilities, composition and structure, membership requirements and the manner in which the committee is to operate. All of these charters are reviewed on an annual basis. All matters determined by committees are submitted to the full Board as recommendations for Board decision.

Minutes of committee meetings once signed by the Chair of the committee are tabled at the immediately subsequent Board meeting.

Details of the meetings of committees and attendance of committee members are set out in the Directors' report under the heading "Directors' Meetings" in the annual statutory accounts for the Group.

External Auditors

The company and audit and compliance committee policy is to appoint external auditors who clearly demonstrate quality and independence. The performance of the external auditor is reviewed annually and applications for tender of external audit services are requested as deemed appropriate, taking into consideration assessment of performance, existing value and tender costs.

It is a requirement that the external auditor ensure that the lead engagement partner is rotated at least every five years.

The external auditor is expected to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.

Risk assessment and management

The Board through the audit and compliance committee is responsible for ensuring there are adequate policies in relation to risk management, compliance and internal control systems. In summary, the company policies are designed to ensure strategic, operational, legal, reputation and financial risks are identified, assessed, effectively managed and monitored to enable achievement of the Group's business objectives.

Considerable importance is placed on maintaining a strong control environment. There is an organisation structure with clearly drawn lines of accountability and delegation of authority. Adherence to the company Code of Conduct is required at all times and the Board actively promotes a culture of quality and integrity.

The company risk management policy and the operation of the risk management and compliance system are managed by a risk management group comprising senior executives. The Board receives regular reports from this group.

Detailed control procedures cover management accounting, financial reporting, project appraisal, environment health and safety, IT security, compliance and other risk management issues. Internal audit carry out regular systematic monitoring of control activities and report to both relevant business unit and the audit and compliance committee. In addition each business unit reports on the key business risks in their area to the Risk Management Group.

The basis for this report is an annual review of the past performance of their area of responsibility, and the current and future risks they face. Results of internal audit work are incorporated into this review if applicable.

The Risk Management Group consolidates the business unit reports for an annual corporate strategy workshop attended by the Board and senior management. This reviews the Group's strategic direction in detail and includes specific focus on the identification of the key business and financial risks which could prevent the company from achieving its objectives. The Risk Management Group is required to ensure that appropriate controls are in place to effectively manage those risks.

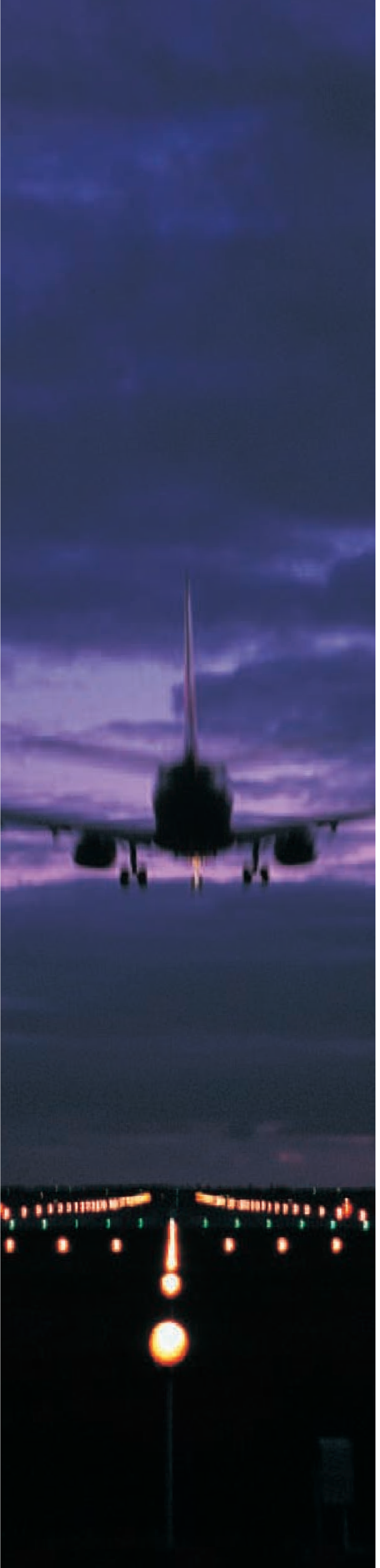
In addition the Board requires that each major proposal submitted to the Board for decision is accompanied by a comprehensive risk assessment and, where required, management's proposed mitigation strategies.

Code of Conduct

The Board is committed to the development of a code of conduct for the guidance of Directors, officers and other key executives. The code is to be regularly reviewed and updated as necessary to ensure that it reflects the highest standards of behaviour and professionalism and the practices necessary to maintain confidence in the Group's integrity.

Shareholder communication

All shareholders receive a copy of the company's annual and half-yearly reports. In addition those reports are accompanied by a detailed report on the performance of the Group and other material issues prepared by the Managing Director. Detailed briefings and site tours are available to shareholders attending the AGM.



the future

The advancement in military and technologically related business and contracts within the state, combined with a resurgence in the mining sector will bring additional people through the airport from all over the world.

Our facilities are able to manage this growth now and well into the next decade.

The World Police and Fire Games, Clipsal 500 and Sevens Rugby will see world sporting and support groups descend on Adelaide and we will be able to show them that Adelaide and its airport are strategic and quality partners.

The uncertainty of the international oil pricing will remain an issue that will need to be constantly monitored as an influence on our future growth potential.

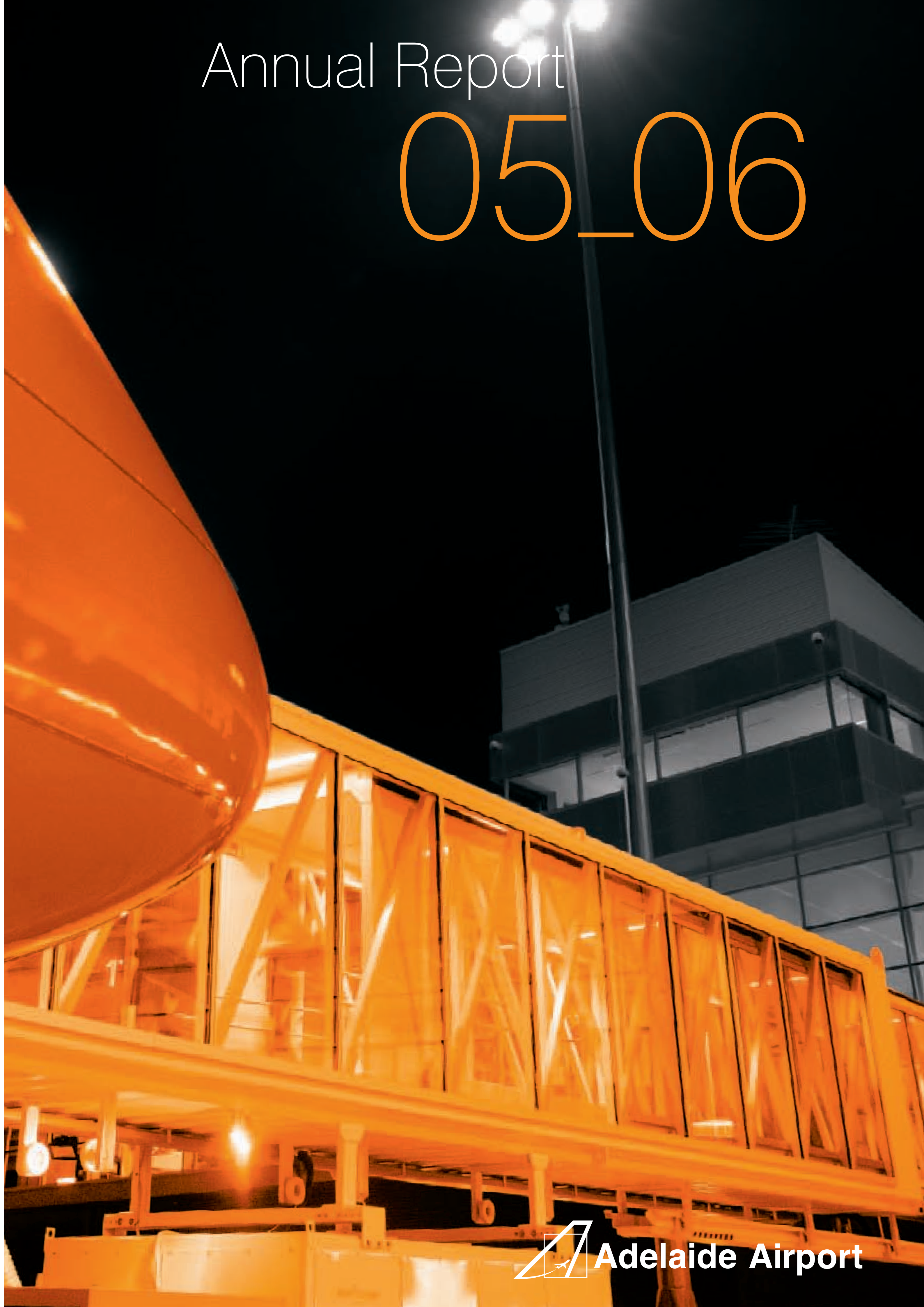
In addition, the traffic growth experienced over the past few years is expected to continue in the short term, but plateau as the current rate of increase is deemed somewhat unsustainable. At the same time this levelling will be counter balanced by the pending introduction of the new large aircraft, A380 and B787.

Each has the capacity to cause a re-scheduling of current fleet aircraft from international routes, to provide more seat capacity at domestic ports such as Adelaide.

Car parking will expand in line with traffic growth and encourage the development of a multi level short term park in the not too distant future.

Property opportunities will continue to remain a focus with the possible introduction of a multi level hotel and small convention complex linked to T1 via a passenger overpass. Interest in the Burbridge Business Park is strong and looks to be fully leased on current trends within four years.

Both Adelaide and Parafield Airports are recognised in the State Government's Metropolitan Planning Strategy as land banks for light industrial capacity and we look forward to sharing the development of this industry group and assist the State's economic revival.



Annual Report 05_06

Adelaide Airport Limited

ACN 075 176 653   ABN 78 075 176 653

directors' report

In respect of the financial year ended 30 June 2006, the directors of Adelaide Airport Limited (AAL) submit the following report made out in accordance with a resolution of the directors:

Directors

The following persons were directors of Adelaide Airport Limited during the whole of the financial year and up to the date of this report unless otherwise stated:

David Cranston Munt	(Chairman)
Phillip Andrew Baker	(Managing Director)
Perry Bernard Lucas	Resigned 15 December 2005
John Robert McDonald	
Alan James Mulgrew	Appointed 6 September 2006
John Arthur Rickus	
Graham McLennan Scott	
James Leonard Tolhurst	
John Frederick Ward	
Michael Delaney	(Alternate for John Rickus)
Caroline Elaine Gibson	(Alternate for Graham Scott)

Principal Activities

The economic entity acts principally within the airport industry in Australia.

Trading Results	2006 $'000	2005 $'000
The result for the financial year for the economic entity was:	(11,067)	9,902

Dividends

No dividends on ordinary shares were paid during the year and no recommendation is made as to dividends (30 June 2005: $Nil). Dividends on Redeemable Preference Shares amounting to $26.2 million were paid or provided for during the year (30 June 2005: $17.3 million).

Review of Operations

A summary of consolidated revenues and results by significant industry segments is set out below

	Segment revenues		Segment results	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Aeronautical services	47,095	30,643	13,318	11,924
Non-aeronautical services	47,901	38,423	27,832	36,831
Unallocated revenues	5,509	2,806	-	-
	100,505	71,872	41,150	48,755
Unallocated revenue less unallocated expenses			(53,114)	(34,878)
Profit/(Loss) from ordinary activities before income tax expense			**(11,964)**	**13,877**
Income tax (expense)/benefit			897	(3,975)
Profit/(Loss) attributable to members of Adelaide Airport Ltd			**(11,067)**	**9,902**

Comments on the operations and the results of those operations are set out below:

(a) Aeronautical services

Adelaide Airport benefited from strong growth in the aviation industry for international, domestic and regional traffic. Total passenger traffic grew by 7.5% on the previous year to 5.8 million passengers. The new terminal was opened to international carriers on the 15 October 2005, however domestic operations were delayed due to the hydrant fuel system not being complete until February 2006. During the year Air New Zealand commenced 4 weekly services to Auckland, Singapore Airlines moved to daily services to Singapore and Malaysia Airlines added two more weekly services. Services to Bali were severely affected by the terrorism activities there resulting in the cessation of services by Air Paradise and less frequency in Garuda Airlines services. Aeronautical income grew significantly not only from the strong growth in passenger numbers but also from the commencement of recovery of the Passenger Facility Charge for the new terminal as it came on line for international services in October 2005 followed soon thereafter by regional services and domestic services in February 2006.

(b) Non-aeronautical services

Property income also grew strongly in the 2006 financial year with the leasing of a substantial site for an IKEA store which opened in May 2006, the leasing and construction of a purpose built regional headquarters for the Australian Quarantine and Inspection Service and the leasing of the first two sites in the Burbridge Business Park Development. The Parafield Commercial Estate continued to grow with all of the available sites with Main North Road frontage now leased, and in addition the leasing of the first of the sites to the rear of the development which do not have main road exposure. The growth in property income was offset partially by a reduction in fair value of investment properties largely due to significant reductions in the values of the now defunct international and domestic terminal buildings. Valuations have allowed for a significant let up period for these properties and a lower expectation of the best use for the international terminal in particular.

(c) Other

Capitalisation of the interest on the construction facility ceased with the practical completion of the terminal building in October 2005 resulting in a substantial increase in the interest expense in the income statement for the year. Dividends on the Redeemable Preference Shares issued by New Terminal Construction Company Pty Ltd, declared or accrued, amount to $26.2 million, up $8.9 million on last year.

Changes in the State of Affairs

There was no significant change in the state of affairs of the Company which occurred during the financial year.

Matters subsequent to the end of the financial year

On 23 August 2006 New Terminal Financing Company Pty Limited through its lead managers ANZ Investment Bank and Westpac Institutional Bank, issued A$265 million of fixed and floating rate 10-year bonds credit wrapped (AAA / Aaa) by MBIA Insurance Corporation for repayment on 20 September 2016.

The floating rate issue ($165m) was priced at 90 day BBSW plus 25 basis points. The fixed rate issue ($100m) was priced at A$ Swap plus 25 basis points, resulting in a fixed coupon rate of 6.25%.

The proceeds of the issue were used to repay the syndicated bank finance facility used to finance the construction of Terminal 1 which was due for repayment in November 2008. There were no costs incurred as a consequence of the early repayment of this facility.

Pursuant to the Design and Construct contract the Economic Entity has finalised, with the Head Contractor, all delay costs and claims arising from a delay to the full commencement of operations in Terminal 1.

No other matter or circumstance has arisen since 30 June 2006 that has significantly affected, or may significantly affect;

a) the consolidated entity's operations in future financial years, or

b) the results of those operations in future financial years, or

c) the consolidated entity's state of affairs in future financial years.

Likely Developments and Expected Results of Operations

Information on likely developments in the operations of the consolidated entity and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the consolidated entity.

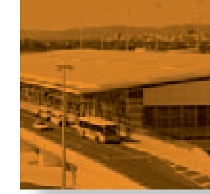
Environmental Regulation

AAL's environmental obligations are set under the *Airports Act 1996* (the Act), and *Airports (Environment Protection) Regulations 1997* (the Regulations). The environmental performance of AAL is monitored and reported upon by the AAL Environment Manager and reviewed for regulatory compliance by the Department of Transport and Regional Services (DOTARS) Airport Environment Officer (AEO).

In late 2004, the Minister for Transport and Regional Services approved the current 5-year Environment Strategy and Master Plan for both Adelaide and Parafield Airports. In accordance with the Act and Regulations, AAL ensures it meets the objectives and detailed commitments set out in both Environment Strategy documents through implementation of an Environmental Management System (EMS) that complies with the requirements of the international ISO14001 environment standard. AAL reports annually to DOTARS on progress against the Environment Strategy and performance of the EMS.

No actions by AAL operators at the airport or tenants have resulted in any Environmental Protection Orders being issued by the AEO, with AAL's stated intent being to meet or exceed all relevant environmental regulations and criteria. Only one Authorisation was issued by the AEO in this reporting period: the City of West Torrens was authorised to release impounded groundwater to the local surface water drainage network during a multi-million dollar project to upgrade the perimeter Cowandilla - Mile End drain. AAL drafted a detailed Environmental Management Plan as part of the application, the implementation of which, in a cooperative effort between AAL, City of West Torrens, specialist consultants, contractors and South Australian Environment Protection Authority, is soon to be finalised.

directors' report



Major Development Plans

There were no new Major Development Plan (MDP) submissions for the reporting period. Substantial work, however, was undertaken by AAL to ensure that the Ministerial conditions placed on the Cross Keys Precinct MDP - largely to protect the unique vernal pool habitat of Parafield Airport - were addressed to the satisfaction of DOTARS. Rehabilitation and monitoring of the vernal pools has commenced well in advance of the construction timetable for Stage 1 of Elder Smith Road.

Information on directors

DIRECTORS

DAVID MUNT, LL.B (Hons), **Chairman**

David was appointed on 30 June 2004 as a non-executive director and Chairman. David has had nearly 30 years experience as a corporate and commercial solicitor, primarily involved in representing parties in difficult and complex litigation. He has had long experience as a public company Chairman and as a director of private companies. David is Chairman of Partners of law firm Thomson Playford and Deputy Chairman of Seeley International Pty Ltd.

Special responsibilities

- Chairman Property Development and Building Committee
- Chairman Remuneration Committee

PHIL BAKER, FCILT, FAICD, **Managing Director**

Appointed on the 24 April 1998 as Managing Director of Adelaide Airport Limited, Phil is also a director of the Adelaide Convention and Tourism Authority. He is a Fellow of the Chartered Institute of Transport and the Australian Institute of Company Directors, a Business Ambassador South Australia and former Managing Director of Ringway Handling Services Limited (Manchester Airport - United Kingdom), former director of the Australian British Chamber of Commerce, Queensland Airports Limited Group and a Director of the Tourism Task Force Limited. Phil has forty years of experience in the aviation industry, including airlines and handling agents.

Special Responsibilities

- Member Property Development and Building Committee

PERRY LUCAS, B.Ec, MAICD, **Director**

Perry was appointed on 30 June 2004 as a non-executive director. Perry was a Senior Portfolio Manager with Colonial First State Investments Limited. Perry resigned 15 December 2005.

JOHN McDONALD, Dip Tech, FCA, FASA, CPA, FIAA, **Director**

John was originally appointed on the 29 July 1998 as an alternate director for Isabel Liu nominee director of a former shareholder, Laing Investments Ltd, and then on the 11 February 2000 as a non-executive director. After the sale of Laing Investments Ltd holding John was appointed as a non-executive director nominated by Motor Trades Association of Australia Superannuation Fund Pty Ltd on 1 December 2003. John is a foundation member of the Australian Institute of Arbitrators and Mediators; Co-founder of Macmahon Holdings Limited; former Chairman and partner of a major South Australian firm of chartered accountants and Chairman of H J Investments Pty Ltd Group. John is a former director of Abigroup Limited and former Chairman of Abigroup Southern Region. John has extensive financial and operational experience in the construction industry.

Special responsibilities

- Member Property Development and Building Committee

ALAN MULGREW, BA (Mgnt), Dip Corp Fin, GRAICD, JP, **Director**

Alan was appointed 6 September 2006 as a non-executive director. Alan has had over thirty years experience as a senior aviation executive both within Australia and overseas, including responsibility for Perth and Sydney Airports. Since leaving Sydney Airport in 1997 Alan has provided strategic advice to numerous major institutions and served as a non-executive board member on a number of high profile boards spanning Aviation, Energy, Construction, Infrastructure and Tourism. Alan is currently the Chairman of Australian Renewable Fuels and a Non-Executive Director of BAC Holdco Pty Ltd, Jaxon Group Holdings Pty Ltd and Doric Group Pty Ltd. He was formerly Chairman of Tourism Western Australia, Chairman of Western Carbon Pty Ltd and a Non-Executive Director of Western Power Corporation. Alan has also served as Chairman or as a member on various Audit Risk Management Committees and as a member of Governance and Remuneration Committees.

JOHN RICKUS, B. Ec, FAICD, **Director**

John was appointed on the 1 September 1998 as a non-executive director nominated by Motor Trades Association of Australia Superannuation Fund Pty Ltd. John is Chairman of the MTAA Superannuation Fund, one of Australia's largest Industry Super Funds. He is also Chairman of Flinders Ports Pty Ltd the commercial operator of seven South Australian ports, a director of Brisbane Airport Corporation Ltd and independent chair of the Audit Committee of the Federal Court of Australia. John spent 25 years in the retail motor industry as a proprietor until 2000 and before that 10 years in stockbroking in both London and Adelaide.

Special responsibilities

- Chairman Audit & Compliance Committee
- Member Property Development and Building Committee
- Member Remuneration Committee

GRAHAM SCOTT, B.Ec (Hons), **Director**

Graham was appointed on the 24 April 1998 as a non-executive director nominated by Local Super SA-NT. He is Chairman of the South Australian Local Government Superannuation Scheme and Unisure Ltd. He is also on the Board of UniSuper Ltd. He was Deputy Director of the South Australian Centre for Economic Studies from its establishment by Flinders and Adelaide Universities in 1984. He was the South Australian Independent Pricing and Access Regulator for gas from 1998 to 2003. Graham was Adelaide Airport Limited's first Chairman holding that position from the 24 April 1998 until his resignation with effect from 30 June 2004.

Special responsibilities

- Member Property Development and Building Committee
- Member Audit & Compliance Committee

JAMES TOLHURST, B.Comm, MBA, FCPA, FCIS, FAICD, **Director**

Jim was appointed on the 29 September 2004 as a non-executive director nominated by UniSuper Ltd. Jim was Deputy Chair of UniSuper Ltd from 1999 to 2002 and is currently the Chair of Queensland Airports Ltd, Gold Coast Airport Pty Ltd, Townsville Airport Ltd, Mt Isa Airport Pty Ltd, Australia Airports Pty Ltd and Piggabeen Land Co Pty Ltd, a director of Leichhardt Coal Pty Ltd, Blair Athol Coal Pty Ltd, Newco Finance Pty Ltd and is a Council Member of Central Queensland University. Jim has had over forty years of experience in accounting and administration.

Special responsibilities

- Member Audit & Compliance Committee
- Member Property Development and Building Committee
- Member Remuneration Committee

JOHN WARD, BSc, FAICD, FAIM, FAMI, FCILT, **Director**

John joined the Board on 28 August 2002 as a non executive Director nominated by UniSuper Limited. He is a professional company director and management consultant. He retired as the General Manager Commercial of News Limited in 2001. Prior to joining News Corporation in 1994 he was Managing Director and Chief Executive of Qantas Airways Limited culminating a 25-year career with the airline in a variety of corporate and line management roles covering Australia, Asia, Europe and North America. He is an Honorary Life Governor of the Research Foundation of Information Technology, Chairman of Wolseley Private Equity, a Director of Brisbane Airport Corporation and Ventracor.

Special responsibilities

- Member Property Development and Building Committee
- Member Remuneration Committee

ALTERNATE DIRECTORS

MICHAEL DELANEY, BA, JP, **Alternate Director**

Michael was appointed on the 15 December 1999 as alternate director for John Rickus, nominated by Motor Trades Association of Australia Superannuation Fund Pty Ltd. He has been the Principal Executive Officer and Secretary of the MTAA Fund since its inception in 1989. He is, as well, a director of the fund. Michael is also Executive Director of the Motor Trades Association of Australia Ltd. Prior to his positions with MTAA he held senior positions in the Australian Public Service, including Senior Advisor to the Prime Minister, Principal Private Secretary to the Minister of Finance, Principal Private secretary to the Leader of the Opposition, First Assistant Secretary, the National Campaign Against Drug Abuse in the Commonwealth Department of Health and Deputy Secretary/Principal Advisor to the Minister for Employment, Education and Training.

CAROLINE GIBSON, B.Ec, MAICD, **Alternate Director**

Caroline was appointed on the 17 December 2003 as an alternate director for Graham Scott. Caroline is the Chief Investment Officer of Local Super SA-NT.

COMPANY SECRETARIES

LEN GOFF, FPNA, GRAICD

Len was appointed Company Secretary on the 29 March 1999. Len has had 19 years experience in the aviation industry and has a background of management and financial accounting in the manufacturing industry. Len is a Fellow Professional National Accountant and a Graduate Member of the Australian Institute of Company Directors.

MARK YOUNG, B.Ec, FCPA, FAICD, FCIS

Mark was appointed Chief Financial Officer on 23 July 2001 and Company Secretary on 28 November 2001. Mark has 25 years experience in the finance industry with a background of financial management and accounting principally in a listed company environment. Mark is a Fellow of the Australian Society of CPA's, a Fellow of the Australian Institute of Company Directors and a Fellow of the Chartered Institute of Secretaries in Australia.

Directors' Meetings

	Full meetings of directors	Meetings of committees: Building Committee	Property Development Committee	Audit and Compliance Committee	Remuneration Committee	Building & Property Development Committee
Meetings held	11	6	1	3	2	3
Director						
Phillip Baker	11	6	-	-	-	3
Perry Lucas (resigned 15 December 2005)	5 [5]	5 [5]	-	1 [1]	-	-
John McDonald	11	6	1	-	-	3
Alan Mulgrew	- [-]	- [-]	- [-]	- [-]	- [-]	- [-]
David Munt	11	6	- [1]	3	2	3
John Rickus	11	6	1	3	2	3
Graham Scott	10 [11]	5 [6]	- [1]	2 [3]	-	3
James Tolhurst	11	6	-	3	-	3
John Ward	11	6	1	-	2	3
Michael Delaney	-	-	-	-	-	-
Caroline Gibson	-	-	-	-	-	-

Where a director did not attend all meetings of the Board or relevant committee, the number of meetings for which the director was eligible to attend is shown in brackets.

Insurance of officers

During the financial year, Adelaide Airport Limited paid a premium to insure the directors and officers of the company and its controlled entities. The terms of the policy prohibit disclosure of the premiums paid.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the consolidated entity, and any other payments arising from liabilities incurred by the officers in connection with such proceedings, other than where such liabilities arise out of conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

Rounding of amounts

The company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities & Investments Commission, relating to the "rounding off" of amounts in the directors' report. Amounts in the directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

This report is made in accordance with a resolution of the Directors:

John Rickus, Director

Phillip Baker, Director

Adelaide, 4 October 2006

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
ABN 52 780 433 757

91 King William Street
ADELAIDE SA 5000
GPO Box 418
ADELAIDE SA 5001
DX 77 Adelaide
Australia
www.pwc.com/au
Telephone +61 8 8218 7000
Facsimile +61 8 8218 7999

Auditors' Independence Declaration

As lead auditor for the audit of Adelaide Airport Limited for the year ended 30 June 2006, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Adelaide Airport Limited and the entities it controlled during the period.

AG Forman
Partner
PricewaterhouseCoopers

Adelaide
4 October 2006

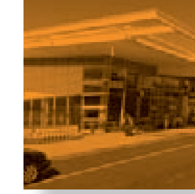
financial report - 30 june 2006

financial statements

Income Statements for the year ended 30 June 2006

		Consolidated		Parent entity	
		2006	2005	2006	2005
	Note	$'000	$'000	$'000	$'000
Revenue from continuing operations	5	99,676	71,172	93,556	65,389
Other income	6	829	700	829	700
Increments/(decrements) in fair value of investment properties	14	(2,278)	12,805	(3,049)	10,963
Employee benefits expense		(8,460)	(7,213)	(8,131)	(6,876)
Depreciation and amortisation expenses	7	(15,211)	(7,364)	(15,031)	(7,195)
Services & utilities		(18,688)	(10,909)	(18,149)	(10,244)
Consultants & advisors		(2,143)	(2,027)	(2,013)	(2,352)
General administration		(4,878)	(3,650)	(6,952)	(3,568)
Leasing & maintenance		(2,014)	(1,785)	(1,845)	(1,622)
Borrowing costs expense	7	(58,623)	(37,826)	(57,188)	(37,753)
Loss on disposal of property, plant and equipment		(136)	(8)	(137)	(8)
Impairment of property plant and equipment	7	(38)	(18)	-	-
Profit/(Loss) from ordinary activities before income tax expense		**(11,964)**	**13,877**	**(18,110)**	**7,434**
Income tax (expense)/benefit attributable to operating profit/(loss)	8	897	(3,975)	2,749	(2,331)
Profit/(Loss) attributable to members of Adelaide Airport Ltd		**(11,067)**	**9,902**	**(15,361)**	**5,103**

The above income statements should be read in conjunction with the accompanying notes.



Balance sheet as at 30 June 2006

	Note	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
Current assets					
Cash and cash equivalents	9	53,401	54,844	17,695	24,327
Receivables	10	6,057	5,928	6,057	5,928
Other	11	8,811	3,044	8,595	2,909
Total current assets		68,269	63,816	32,347	33,164
Non-current assets					
Receivables	17	438	438	12,127	40,895
Property, plant and equipment	12	317,579	288,821	317,579	288,821
Prepaid operating leases	13	124,142	125,507	124,142	125,507
Investment property	14	180,760	169,681	158,215	148,526
Intangible assets	16	184,439	184,684	179,410	179,485
Other	18	281	42	231	-
Total non-current assets		807,639	769,173	791,704	783,234
Total assets		**875,908**	**832,989**	**824,051**	**816,398**
Current liabilities					
Payables	20	17,035	28,316	16,258	21,036
Borrowings	21	221	86	221	86
Derivatives financial instruments	19	1,712	-	1,712	-
Provisions	22	1,055	789	-	-
Other	23	1,427	1,089	1,411	457
Total current liabilities		21,450	30,280	19,602	21,579
Non-current liabilities					
Borrowings	24	706,910	641,464	675,193	647,435
Deferred tax liabilities	25	74,944	77,215	70,809	73,237
Derivatives financial instruments	19	2,868	-	2,868	-
Provisions	26	187	208	-	-
Total non-current liabilities		784,909	718,887	748,870	720,672
Total liabilities		**806,359**	**749,167**	**768,472**	**742,251**
Net assets		**69,549**	**83,822**	**55,579**	**74,147**
Equity					
Contributed equity	27	1,905	1,905	1,905	1,905
Reserves	28(a)	(3,206)	-	(3,206)	-
Retained profits	28(b)	70,850	81,917	56,881	72,242
Total equity		**69,549**	**83,822**	**55,580**	**74,147**
Equity and stapled securities					
Total equity		69,549	83,822	55,580	74,147
Redeemable Preference Shares	24	188,006	187,936	-	-
Total equity		**257,555**	**271,758**	**55,580**	**74,147**

The above balance sheets should be read in conjunction with the accompanying notes.

Statements of changes in equity for the year ended 30 June 2006

	Note	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
Total equity at the beginning of the financial-year		**83,822**	**73,920**	**74,147**	**69,044**
Adjustment on adoption of AASB 132 and AASB 139, net of tax to: Reserves		(12,493)	-	(12,493)	-
Change in market value of cash flow hedges, net of tax	28(a)	9,287	-	9,287	-
Profit/(Loss) for the financial-year		(11,067)	9,902	(15,361)	5,103
Total recognised income and expense for the financial-year		**(14,273)**	**9,902**	**(18,567)**	**5,103**
Total equity at the end of the financial-year		**69,549**	**83,822**	**55,580**	**74,147**

The above statements of changes in equity should be read in conjunction with the accompanying notes.

Cash flow statements for the year ended 30 June 2006

	Note	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
Cash flows from operating activities					
Receipts from customers (inclusive of GST)		104,722	74,760	91,268	70,551
Payments to suppliers and employees (inclusive of GST)		(49,195)	(33,867)	(40,644)	(30,502)
Interest received		6,410	2,724	4,665	1,190
Interest and other borrowing costs paid		(35,189)	(29,309)	(55,067)	(43,414)
RPS Dividend		(26,442)	(10,259)	-	-
Net cash inflow/(outflow) from operating activities	**38**	**306**	**4,049**	**222**	**(2,175)**
Cash flows from investing activities					
Payments for property, plant and equipment		(68,050)	(143,853)	(67,382)	(143,833)
Payments for other non-current assets		-	(271)	-	(81)
Proceeds from sale of property, plant and equipment		2,172	6	2,172	6
Net cash outflow from investing activities		**(65,878)**	**(144,118)**	**(65,210)**	**(143,908)**
Cash flows from financing activities					
Proceeds from borrowings		64,130	148,167	2,249	-
Loans to tenants		(1)	(443)	(1)	(443)
Loans from associated companies		-	-	56,108	152,421
Net cash inflow from financing activities		**64,129**	**147,724**	**58,356**	**151,978**
Net decrease in cash held		(1,443)	7,655	(6,632)	5,895
Cash at the beginning of the financial year		54,844	47,189	24,327	18,432
Cash at the end of the financial year	**9**	**53,401**	**54,844**	**17,695**	**24,327**

The above Statements of cash flows should be read in conjunction with the accompanying notes.

notes to financial statements

Note 1. Summary of significant accounting policies

This general purpose financial report for the reporting period ended 30 June 2006 has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

(a) Basis of preparation

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all periods presented unless otherwise stated.

Application of AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards (AIFRS)

This financial report is the first Adelaide Airport Limited financial report to be prepared in accordance with AIFRS.
AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied in preparing these financial statements.

Financial Statements of Adelaide Airport Limited until 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP).
AGAAP differs in certain respects from AIFRS. When preparing the Adelaide Airport Limited financial report for the year ending 30 June 2006, certain accounting, valuation and consolidation methods applied in the previous AGAAP financial statements have changed to comply with AIFRS. With the exception of financial instruments, the comparative figures were restated to reflect these adjustments. The Group has taken the exemption available under AASB 1 to apply AASB 132 *Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement* from 1 July 2005.

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRS on the Group's equity and its net income are given in note 41.

Historical cost convention

These financial statements have been prepared under historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value through profit or loss and investment properties under fair value accounting model.

Critical accounting estimates

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

(b) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Adelaide Airport Limited ("company" or "parent entity") as at 30 June 2006 and the results of all subsidiaries for the year then ended. Adelaide Airport Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to note (g)).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the net asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Investments in subsidiaries are accounted for at cost in the individual financial statements of Adelaide Airport Ltd.

Note 1. Summary of significant accounting policies (continued)

(c) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and amounts collected on behalf of third parties. Revenue is recognised for the major business activities as follows:

(i) Aeronautical revenues

Aeronautical revenues comprise landing fees based on the maximum take-off weight (MTOW) of aircraft or passenger numbers (as elected by airline customers); terminal charges and passenger facilitation charges (PFC) based on passenger numbers and a recovery of Government mandated security charges on a per passenger or MTOW basis. Income is recognised in the period in which passengers and aircraft physically arrive at the airport.

(ii)Commercial trading revenues

Commercial trading revenue comprises concessionaire rent and other charges received. Profit rentals are recognised in respect of the period in which the sales to which they pertain arise, other rentals are recognised in the period for which the rental relates according to the lease documents.

(iii) Public car parks

Public car park income is recognised on a cash basis.

(iv) Lease income

Property lease income comprises rental income from airport terminals, buildings and other leased areas. Lease income is recognised in income on a straight-line basis over the lease term.

(v) Interest income

Interest income is recognised on a time proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(d) Government Grants

Grants from the State and Federal governments are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to the income statement on a straight line basis over the expected lives of the related assets.

(e) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled. 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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Tax consolidation

Adelaide Airport Limited and its wholly-owned entities have implemented the tax consolidation legislation as of 1 July 2003.

The head entity, Adelaide Airport Limited, and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Adelaide Airport Limited also recognises the current tax liabilities arising under tax funding agreements with the tax consolidated entities which are recognised as amounts receivable from or payable to other entities in the group. Details about the tax funding agreement are disclosed in note 8.

Any difference between the amounts assumed and the amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

(f) Leases

The Group leases airport land from the Commonwealth of Australia a portion of which is classified as a prepaid operating lease. That lease is amortised over the length of the lease term. The balance of the leased land is classified as Investment Property (refer to note (p)).

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments.

The corresponding rental obligations, net of finance charges, are included in other long term payables. Each lease payment is allocated between the liability and the finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight line-line basis over the period of the lease.

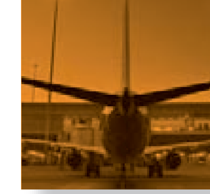
Lease income from operating leases is recognised in income on a straight-line basis over the lease term.

(g) Business combinations

The company has adopted AASB 3 *Business Combinations* to all business combinations since May 1998.

The purchase method of accounting is used to account for all acquisitions of assets (including business combinations) regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the identifiable net assets acquired is recorded as goodwill (refer to note q(i)). If the cost of acquisition is less than the fair value of assets is less than the fair value of the assets acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.



Note 1. Summary of significant accounting policies (continued)

(h) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of the 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 flows (cash generating units).

(i) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(j) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Trade receivables are due for settlement no later than 30 days from the date of recognition.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

(k) Other financial assets

Tenant Loans

Tenant loans have arisen owing to the Group having funded capital expenditure projects on behalf of tenants. The related receivables are included in current or non-current assets - other in the balance sheet.

(l) Derivatives

From 1 July 2004 to 30 June 2005

The Group has taken the exemption available under AASB 1 to apply AASB 132 and ASB 139 only from 1 July 2005. The Group has applied previous AGAAP to the comparative information on financial instruments within the scope of AASB 132 and AASB 139.

Adjustments on transition date: 1 July 2005

The nature of the main adjustments to make this information comply with AASB 132 and AASB 139 are that derivatives are measured on a fair value basis. Changes in fair value are either taken to the income statement or an equity reserve (refer below). At the date of transition (1 July 2005) changes in the carrying amounts of derivatives are taken to retained earnings or reserves, depending on whether the criteria for hedge accounting are satisfied at the transition date.

All of the company's Interest Rate Hedges have been tested and deemed effective.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group has in place cash flow hedges against interest rate fluctuations for portions of its non-current loans in accordance with the Group's hedging policy.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows or hedged items.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recorded in the income statement in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset or liability.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(m) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. The Fair Value of interest rate swaps is calculated as the present value of the estimated future cash flows.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

(n) Property, plant and equipment

The Group has elected to measure

(i) runways, taxiways and aprons at fair value and use that fair value as its deemed cost at the date of transition to AIFRS

(ii) buildings and leasehold improvements (excluding investment property (note (p)) using the current carrying cost of those assets being the deemed cost less accumulated depreciation in accordance with the transitional provisions of AASB 1; and

(iii) all other items of property plant and equipment (excluding investment property (note (p)) at historical cost less accumulated depreciation.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the item can be measured reliably.

Tenant Contributions

Contributions to the acquisition of property, plant and equipment which remain the property of the Group are recognised as income over the periods necessary to match them with the depreciation of the assets for which the contribution is intended.

Depreciation

Depreciation is calculated on a straight-line basis to write off the net cost or revalued amount of each item of property, plant and equipment over its expected useful life to the consolidated entity. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items. The expected useful lives are as follows:

notes to financial statements

Note 1. Summary of significant accounting policies (continued)

(n) Property, plant and equipment (continued)

Category	Useful life	Depreciation basis
Owner Occupied Buildings	25 yrs	straight line
Leasehold Improvements (including runways, taxiways and aprons)	8 yrs - balance of lease term	straight line
Plant & Equipment	3 - 25 yrs	straight line
Computer & Other Office Equipment	2.5 - 5 yrs	straight line
Furniture & Fittings	10 - 16 yrs	straight line
Low Value Asset Pool	3 yrs	Diminishing Value

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

As a result of obtaining the lease right to operate the airports from the Commonwealth, the economic entity obtained the right to use all of the property, plant and equipment associated with the airports.

Under the lease arrangement with the Commonwealth, all airport land, structures and buildings revert back to the Commonwealth at the end of the 99-year lease term. As a result, all structures and buildings are amortised by the economic entity over a period not exceeding 99 years commencing 28 May 1998.

Maintenance and repairs

Aircraft pavements, roads, leasehold improvements, plant and machinery of the consolidated entity are required to be overhauled on a regular basis. This is managed as part of an ongoing major cyclical maintenance program. The costs of this maintenance are charged to the income statement during the financial period in which they are incurred, except where they relate to the addition of a new surface to the pavements or roads, in which case the costs are capitalised and depreciated as noted above. Other routine operating maintenance, repair and minor renewal costs are also charged as expenses as incurred.

(o) Non-current assets constructed by the consolidated entity

The cost of non-current assets constructed by the consolidated entity includes the cost of all materials used in construction, contract design, administration, contract labour, and where appropriate direct labour and associated oncosts on the project, and borrowing costs incurred during construction.

Borrowing costs included in the cost of non-current assets are those costs that would have been avoided if the expenditure on the construction of assets had not been made.

(p) Investment property

Investment property, principally comprising of land, buildings and fixed plant and equipment, is held for long-term rental yields and is not occupied by the group. Investment property is carried at fair value, determined by external valuers. Changes in fair values are recorded in the income statement as part of other income.

The property interest held by the Group in land and buildings at Adelaide and Parafield Airport is by way of an operating lease. The Group has classified certain areas of land and buildings as being investment property being held by the Group only to earn rentals and not for being held for the use of supplying aeronautical services or administrative services.

(q) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of the acquisition of the operating leases for Adelaide and Parafield Airports over the fair value of the net identifiable assets and liabilities of the airports at the date of acquisition. Goodwill on acquisition of the operating leases for Adelaide and Parafield Airports is included in intangible assets. Goodwill acquired in business combinations is not amortised. Instead, goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Goodwill is tested for impairment against the total operations of the Group.

(ii)Revenue leases

The excess value of certain revenue generating operating leases acquired with the operating leases for Adelaide and Parafield Airports over the fair value of those leases is included in intangible assets. The intangible assets representing the excess value are amortised on a straight line basis over the balances of the term of those revenue operating leases to which they refer. Where those leases are terminated earlier than the termination date of the lease, the balance of the intangible asset is recorded in the income statement at the actual termination date.

(r) Trade and other creditors

These amounts represent liabilities for goods and services provided to the company prior to the end of the financial year and which were unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(s) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest rate method.

Redeemable Preference Shares (note x) are classified as liabilities. The dividends on these preference shares are recognised in the income statement as interest expense.

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.

(t) Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

(u) Provisions

Provisions for legal claims and service warranties are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

When there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

(v) Employee entitlements

(i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including annual leave expected to be settled within 12 months of the reporting date are recognised in the provision for employee benefits in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. No provision is made for non-vesting sick leave as the anticipated pattern of future sick leave taken indicates that accumulated non-vesting leave will never be paid.

(ii) Long service leave

The liability for long service leave expected to be settled within 12 months of the reporting date is recognised in the provision for employee benefits and is measured in accordance with (v)(i) above. The liability for long services leave expected to be settled more than 12 months from the reporting date is recognised in the provision for employee benefits and measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(w) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options, capital reductions and share buybacks are shown in equity as a deduction, net of tax, from the proceeds.

Note 1. Summary of significant accounting policies (continued)

(x) Redeemable Preference Shares

New Terminal Construction Company Pty. Limited ("NTCC") has issued $188.6 million Redeemable Preference Shares ("RPS") with a face value of $99 each to the shareholders of Adelaide Airport Limited which are redeemable for $100 (including a $1 premium) 10 years after their issue being 18 June 2014. Each RPS is stapled to an ordinary share in Adelaide Airport Limited.

The Airport Loan Notes ("ALN"), previously issued to the shareholders of Adelaide Airport Limited ("AAL"), were unstapled and sold by the holders to NTCC on 18 June 2004.
Interest payable on the ALN's, by AAL to NTCC, is subject to there being distributable cash calculated in accordance with the terms of the Loan Note Deed Poll.

The holder of a RPS is entitled to a non-cumulative dividend. Payment of a dividend is subject to there being funds legally available from a distribution under the ALN's from AAL to NTCC.

The RPS are classified in the balance sheet as non-current liabilities, because they are a debt instrument. However, because they are stapled to the ordinary shares in AAL, the consolidated balance sheet also discloses the combined amount of equity and RPS.

Each RPS holder has agreed to subordinate their rights to the claims of Senior Creditors (as defined in the RPS Subordination Deed Poll). In particular, each RPS holder has agreed not to demand redemption of their RPS unless the Senior Creditors have been repaid the Senior Debt (as defined in the RPS Subordination Deed Poll) in full.

RPS may be redeemed on the redemption date (and the redemption proceeds paid to RPS holders) out of the proceeds of a new issue. Holders of RPS have agreed to be bound by any resolution passed by holders of 75% or more of the RPS to subscribe for a new issue of RPS on the same terms.

The full terms of issue of the RPS are contained in the Constitution of New Terminal Construction Company Pty Ltd.

(y) Land Transport Notes

Land Transport Notes (LTNs) are issued by the economic entity with a fixed coupon rate, the interest being non-deductible for tax purposes. The interest income in the hands of investors has an Infrastructure Borrowings Tax Offset (IBTO) attached to the benefit of the investor.

A proportion of that benefit is returned to the economic entity as interest received together with a partial repayment of the principal. The partial repayment of the principal is treated as income in the hands of the economic entity as it is reflected in the conversion of "A" Class LTNs to "B" Class LTNs. The term of the "A" Class LTNs is 5 years. The term of the "B" Class LTNs coincides with the Airport lease term which initially is to 2048 but may be extended for a further 49 years.

Put and call options between parties ensure that on maturity or early termination that there is a simultaneous settlement of all amounts outstanding at that time. The amounts of the loan to MBL and the amount of the LTNs are considered to meet legal and accounting requirements of being set-off against each other and no asset or liability in respect of the loans or LTNs has been recorded in the balance sheet of the consolidated entity.

(z) Rounding of amounts

The company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities & Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

(aa) New accounting standards and UIG interpretations

Certain new accounting standards and UIG interpretations have been published that are not mandatory for 30 June 2006 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

(i) UIG 4 Determining whether an Asset Contains a Lease

UIG 4 is applicable to annual periods beginning on or after 1 January 2006. The Group has not elected to adopt UIG 4 early. It will apply UIG 4 in its 2007 financial statements and the UIG 4 transition provisions. The Group will therefore apply UIG 4 on the basis of facts and circumstances that existed as of I July 2006. Implementation of UIG 4 is not expected to change the accounting for any of the Group's current arrangements.

(ii) AASB 2005-9 Amendments to Australian Accounting Standards [AASB 4, AASB 1023, AASB 139 & AASB 132]

AASB 2005-9 is applicable to annual reporting periods beginning on or after 1 January 2006. The amendments relate to the accounting for financial guarantee contracts. The Group has not elected to adopt the amendments early. It will apply the revised standards in its 30 June 2007 financial statements.

Application of the revised rules may result in the recognition of financial liabilities in the financial statements of the parent entity, Adelaide Airport Ltd, under guarantees given pursuant to the deed of cross guarantee (see note 39) in respect of amounts payable by wholly-owned subsidiaries. An assessment of the fair value of these guarantees has not yet been performed. The new rules will be implemented retrospectively with a restatement of the comparatives as required by AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors.

(iii) AASB 7 Financial Instruments: Disclosures and AASB 2005-10 Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 1038]

AASB 7 and AASB 2005-10 are applicable to annual reporting periods beginning on or after 1 January 2007. The Group has not adopted the standards early. Application of the standards will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Group's financial instruments.

Note 2. Financial risk management

The Group's activities expose it to a variety of financial risks; market risk (including fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.
The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as interest rate swaps to hedge certain risk exposures.

Risk management is carried out under policies approved by the Board of Directors. The finance department identifies, evaluates and hedges financial risks. The Board provides written principles for overall risk management, as well as written policies covering specific areas such as mitigating interest rate and credit risks, use of derivative financial instruments and investing excess liquidity.

(a) Market risk

(i) Fair value interest rate risk

Refer to (d) below.

(b) Credit risk

The Group minimises concentrations of credit risk by undertaking transactions with a large number of customers and has policies in place to ensure that sales of services and operating leases of property are made to customers with an appropriate credit history. Derivative counterparties and cash transactions are limited to high quality financial institutions. The Group has a material exposure to the major Australian domestic airlines.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities.
The Group aims to maintain adequate cash reserves supported by committed credit lines.

(d) Cash flow and fair value interest rate risk

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk.

The Group manages its cash flow interest-rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Generally the Group raises long-term borrowings at floating rates and swaps them into fixed rates directly. Under the interest-rate swaps, the Group agrees with other parties to exchange, at specified intervals (mainly quarterly), the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional principal amounts.

The Group has substantial cash deposits required under financing covenants which are deposited on call at variable rates which also act as a natural hedge to a portion of the long term borrowings.

Note 3. Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and judgments

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in 1(q). Calculations are based on a long term financial model (to 2048) using forward estimates of cash flows arising from the Group's operations, economic assumptions that impact key drivers such as passenger traffic, property lease market rates and CPI. The estimated cash flows are subject to a discounted cash-flow analysis which also contains assumptions regarding an appropriate discount rate, which reflects the risks pertaining to the group's operations.

(ii) Income taxes

The Group is subject to income taxes in Australia. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain.

(b) Critical judgments in applying the entity's accounting policies.

The assets and liabilities that are subject to fair value estimation are investment properties, derivative financial instruments, and separately identifiable intangible assets. Further information on the methodology used in measuring these assets and liabilities are described in notes 14, 19 and 16 respectively.

Note 4. Segment information

Business segments

The consolidated entity is organised into the following divisions by service type:

Aeronautical

Provision of aeronautical services including but not limited to aircraft movement facilities and activities and passenger processing facilities and activities

Non-Aeronautical

Services other than aeronautical services consisting of property development, property management and car park management.

Geographical segments

The consolidated entity's operations are wholly located in South Australia.

Note 4. Segment Information (continued)

		2006			2005		
		Aeronautical	Non-Aeronautical	Consolidated	Aeronautical	Non-Aeronautical	Consolidated
	Note	$'000	$'000	$'000	$'000	$'000	$'000
Total sales revenue	5	46,543	47,624	94,167	30,031	38,335	68,366
Other income	6	553	276	829	612	88	700
Increments/(decrements in fair value of investment assets	14	-	(2,278)	(2,278)	-	12,805	12,805
Total segment revenue		47,096	45,622	92,718	30,643	51,228	81,871
Segment result		13,318	27,832	41,150	11,924	36,831	48,755
Unallocated revenue less unallocated expenses				(53,114)			(34,878)
Profit/(Loss) from ordinary activities before income tax benefit				(11,964)			13,877
Income tax (expense)/benefit				897			(3,975)
Net profit/(loss)				(11,067)			9,902
Segment assets		520,852	319,060	839,912	508,374	285,822	794,196
Unallocated assets				35,996			38,793
Total assets				875,908			832,989
Segment liabilities		8,928	4,867	13,795	14,089	8,043	22,132
Unallocated liabilities				792,564			727,035
Total liabilities				806,359			749,167
Acquisition of property, plant and equipment, intangibles and other non-current segment assets		36,867	17,526	54,393	130,132	22,145	152,277
Depreciation and amortisation expense	7	12,793	2,418	15,211	6,388	977	7,365
Other non-cash expenses		172	176	348	134	103	237

Notes to and forming part of the segment information

Accounting policies

Segment information is prepared in conformity with the accounting policies of the entity as disclosed in note 1 and accounting standard AASB 114 *Segment Reporting*.

Segment revenues, expenses, assets and liabilities are those that are directly attributable to a segment and the relevant portion that can be allocated to the segment on a reasonable basis. Segment assets include all assets used by a segment and consist primarily of operating cash, receivables, property, plant and equipment and lease premium and other intangible assets, net of related provisions. While most of the assets can be directly attributable to individual segments, the carrying amounts of certain assets used jointly by segments are allocated based on reasonable estimates of usage. Segment liabilities consist primarily of trade and other creditors and employee entitlements. Segment assets and liabilities do not include income taxes.

Note 5. Revenue

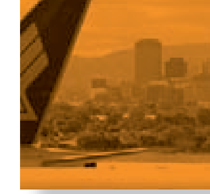
	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
From continuing operations				
Sales revenue				
Aeronautical revenue	46,369	30,031	46,243	29,865
Commercial trading revenue	17,643	14,853	16,275	13,653
Property revenue	24,437	23,092	21,651	20,233
Other revenue	5,718	390	5,654	389
	94,167	68,366	89,823	64,140
Other revenue				
Interest	5,509	2,806	3,733	1,249
	5,509	2,806	3,733	1,249
Total revenue	99,676	71,172	93,556	65,389

Note 6. Other Income

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
Government grants	829	700	829	700
Total other income	829	700	829	700

Note 7. Expenses

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
Profit before income tax includes the following specific expenses				
Depreciation of:				
Buildings	96	96	96	96
Leasehold improvements	4,293	4,262	4,292	4,262
Plant & equipment	1,007	943	999	943
Computers, office equipment, furniture & fittings	418	302	416	302
New Terminal costs in capital work in progress (note 12)	7,787	-	7,787	-
Total depreciation of property plant and equipment	13,601	5,603	13,590	5,603
Amortisation of:				
Prepaid operating lease	1,365	1,365	1,365	1,365
Property lease	245	396	76	227
Total amortisation	1,610	1,761	1,441	1,592
Total amortisation and depreciation	**15,211**	**7,364**	**15,031**	**7,195**
Finance costs:				
Interest on Airport Loan Notes	-	-	26,214	17,310
Dividends on RPS paid and/or provided	26,214	17,311	-	-
Interest paid or payable to unrelated persons	34,724	27,343	34,739	27,343
Amortisation of borrowing costs	1,450	1,462	-	1,390
Finance costs capitalised into carrying amounts of non-current assets	(3,765)	(8,290)	(3,765)	(8,290)
Total finance costs expensed	58,623	37,826	57,188	37,753
Other operating expense items:				
Impairment of property plant and equipment	38	18	-	-
Net bad debts written off	126	20	126	15
Net change to provision of doubtful debts	2	-	-	-
Provision for employee benefits	715	642	-	-
Operating lease - minimum lease payments	587	303	563	281
Total other operating expense items	1,468	983	689	296



Note 8. Income tax expense

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
(a) Income tax (benefit)/expense				
Current tax	-	-	-	-
Deferred tax	(897)	3,975	(2,749)	2,331
Under / (over) provided in prior years	-	-	-	-
Income tax (benefit)/expense attributable to profit from continuing operations	(897)	3,975	(2,749)	2,331
Deferred income tax expense (revenue) included in income tax expense comprises:				
Decrease (increase) in deferred tax assets	(3,250)	771	(3,177)	(879)
(Decrease) increase in deferred tax liabilities	2,353	3,204	428	3,210
	(897)	3,975	(2,749)	2,331
(b) Numerical reconciliation of income tax expense (benefit) to prima facie tax payable				
Loss from continuing operations before income tax expense (benefit)	(11,964)	13,877	(18,110)	7,434
Tax at the Australian tax rate of 30% (2005 - 30%)	(3,589)	4,163	(5,433)	2,230
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Non-deductible interest expense	2,658	-	2,658	-
Other	34	(188)	26	101
	(897)	3,975	(2,749)	2,331
(c) Amounts recognised directly in equity				
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to equity				
Net deferred tax debited directly to equity (notes 15 and 25)	1,374	-	1,374	-

(d) Tax consolidation legislation

Adelaide Airport Limited and its wholly-owned entities have implemented the tax consolidation legislation as of 1 July 2004. The accounting policy on implementation of the legislation is set out in note 1(e).

On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement which in the opinion of the directors, limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, Adelaide Airport Limited.

Note 8 - Income tax expense (continued)

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Adelaide Airport Limited for any current tax payable assumed and are compensated by Adelaide Airport Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Adelaide Airport Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax installments. The funding amounts are recognised as current Intercompany receivables or payables (see note 35(d)).

Note 9. Current assets - Cash and cash equivalents

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
Cash at bank and on hand	17,695	23,695	17,695	23,695
Cash reserves at bank[1]	35,706	31,149	-	632
	53,401	54,844	17,695	24,327

[1]Cash reserves are established subject to certain conditions in the Security Trust Deed with the Australia and New Zealand Banking Group Limited and are a debt service and construction reserve for the new terminal and are not available for general working capital use.

Note 10. Current assets - Recievables

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
Trade debtors	6,059	5,928	6,059	5,928
Less: Provision for doubtful debts	(2)	-	(2)	-
	6,057	5,928	6,057	5,928

Note 11. Current assets - other

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
Loans to tenants	6	5	6	5
Prepayments	1,188	571	1,021	571
Accrued revenue	7,617	2,468	7,568	2,333
	8,811	3,044	8,595	2,909

notes to financial statements

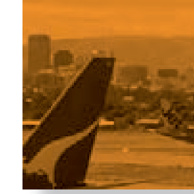
Note 12. Non current assets - Property, plant & equipment

	Consolidated		Parent entity	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
Leasehold buildings and improvements				
Leasehold buildings				
- At cost	1,802	1,976	1,698	1,872
Less: Accumulated depreciation	(598)	(546)	(494)	(442)
	1,204	1,430	1,204	1,430
Leasehold improvements				
- At cost	75,801	73,618	71,949	69,766
Less: Accumulated depreciation	(19,378)	(15,087)	(15,526)	(11,235)
	56,423	58,531	56,423	58,531
Total leasehold buildings and improvements	**57,627**	**59,961**	**57,627**	**59,961**
Plant and equipment				
Plant & equipment				
- At cost	7,618	6,995	7,225	6,642
Less: Accumulated depreciation	(4,844)	(4,090)	(4,451)	(3,737)
	2,774	2,905	2,774	2,905
Plant & equipment under lease at capitalised cost	2,726	376	2,726	376
Less: Accumulated depreciation	(331)	(178)	(331)	(178)
	2,395	198	2,395	198
Computers, office equipment, furniture & fittings				
- At cost	3,227	2,862	3,131	2,768
Less: Accumulated depreciation	(2,426)	(2,034)	(2,330)	(1,940)
	801	828	801	828
Total plant and equipment	**5,970**	**3,931**	**5,970**	**3,931**
Capital works[1]				
Capital works in progress				
- At cost	1,082	7,064	1,082	7,064
- New Terminal at cost	260,687	217,865	260,687	217,865
Less accrued depreciation on New Terminal	(7,787)	-	(7,787)	-
Total capital works	**253,982**	**224,929**	**253,982**	**224,929**
Total non-current assets - property, plant and equipment	**317,579**	**288,821**	**317,579**	**288,821**

[1]Included in capital works in progress is an amount of $260,686,644 (2005 - $217,865,472) for construction costs of the new terminal development. As the new terminal project was not fully complete as at 30 June 2006 but was substantially complete and operational, appropriate depreciation has been accrued and offset against capital works pending transfer into the asset registers of the Group.

Note 12. Non current assets - Property, plant & equipment (continued)

	Leasehold Buildings & Improvements	Plant & equipment	Capital work in progress	Total
	$'000	$'000	$'000	$'000
2006				
Consolidated				
Carrying amount at 1 July 2005	59,961	3,931	224,929	288,821
Additions	2,215	3,521	38,969	44,705
Disposals	(131)	(48)	(2,129)	(2,308)
Impairment	(29)	(9)	-	(38)
Depreciation/amortisation expense (note 7)	(4,389)	(1,425)	(7,787)	(13,601)
Carrying amount at 30 June 2006	57,627	5,970	253,982	317,579
Parent entity				
Carrying amount at 1 July 2005	59,961	3,931	224,929	288,821
Additions	2,185	3,512	39,627	45,324
Disposals	(131)	(48)	(2,129)	(2,308)
Impairment	-	-	-	-
Transfers to subsidiary	-	(10)	(658)	(668)
Depreciation/amortisation expense (note 7)	(4,388)	(1,415)	(7,787)	(13,590)
Carrying amount at 30 June 2006	57,627	5,970	253,982	317,579
2005				
Consolidated				
Carrying amount at 1 July 2004	62,690	4,167	70,063	136,920
Additions	1,635	1,032	154,866	157,533
Disposals	-	(11)	-	(11)
Impairment	(6)	(12)	-	(18)
Depreciation/amortisation expense (note 7)	(4,358)	(1,245)	-	(5,603)
Carrying amount at 30 June 2005	59,961	3,931	224,929	288,821
Parent entity				
Carrying amount at 1 July 2004	62,690	4,167	70,063	136,920
Additions	1,629	1,020	154,866	157,515
Disposals	-	(11)	-	(11)
Impairment	-	-	-	-
Transfers to subsidiary	-	-	-	-
Depreciation/amortisation expense (note 7)	(4,358)	(1,245)	-	(5,603)
Carrying amount at 30 June 2005	59,961	3,931	224,929	288,821



Note 13. Prepaid operating lease

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
At cost	135,179	135,179	135,179	135,179
Less: Accumulated depreciation	(11,037)	(9,672)	(11,037)	(9,672)
	124,142	125,507	124,142	125,507

(a) Valuation of property, plant and equipment

Property, plant and equipment is carried at its cost less any accumulated depreciation in accordance with the cost model in AASB 116 *Property, Plant and Equipment.* AAL has taken the option to value runways, taxiways and aprons at their fair value as at 30 June 2004 (which is then carried forward as deemed cost) as provided for in the transitional provisions of AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards.*

(b) Non-current assets pledged as security

Refer to note 24 for information on non-current assets pledged as security by the parent entity or its controlled entities.

Note 14. Non current assets - Investment Property

At fair value

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
Opening balance 1 July	169,681	156,188	148,526	136,878
Capitalised subsequent expenditure	13,357	688	12,738	685
Net gain (loss) from fair value adjustment	(2,278)	12,805	(3,049)	10,963
Closing balance 30 June	180,760	169,681	158,215	148,526

(a) Amounts recognised in profit and loss for investment property

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
Rental income	22,514	24,493	19,051	20,984
Direct operating expenses from property that generated rental income	(2,223)	(2,541)	(2,008)	(2,335)
	20,291	21,952	17,043	18,649

(b) Valuation basis

Investment properties are independently valued on a fair value basis by Rushton Valuers Pty Ltd on a 3 year rotational basis as follows;

- All investment land is valued annually
- Investment buildings with a value greater than $3.0 million are valued annually
- One third of the balance of investment buildings are valued annually so that all investment buildings with a value less than $3.0 million will be valued not less than once every three years. This sample is selected so that it is reasonably representative of the two thirds not being valued in that particular year.
- The remaining two thirds is then valued, by Rushton Valuers, using an on desk review approach.

Note 14. Non current assets - Investment Property (continued)

Rushton Valuers use the appropriate valuation methodology in accordance with the circumstances of the particular investment property. Valuation methodologies utilised by Rushton Valuers are as follows;

- Direct Comparison. This method is used for valuing freehold land and involves comparing sales of similar properties in the same or similar areas. This method is very reliable where there is a sufficient sample size. It assumes that the seller and buyer are prudent and are well informed as to recent sales of properties similar to that which is being offered.
- Capitalisation. This method capitalises an actual or imputed net rental income at an appropriate yield as determined by the market place. The yield is an expression of the perceived risks associated with the investment relating to such factors as the protection of capital invested and anticipated appreciation, security of income and cash flow, time frame for the return of capital, liquidity, saleability and investor demand for the property, economic factors including inflation, term and covenants of the lease, rental structure, financial backing of the sitting tenant etc. Research, investigation and analysis of sales of similar type investment properties is undertaken to determine appropriate rental and capitalisation rates. An allowance for leasing fees, loss of rental during the potential let-up period and incentives is made to reflect the value of the tenancies with vacant possession as opposed to being fully leased.
- On Desk Review. This method is used for the balance of two thirds of the investment building portfolio as set out above. An on desk review does not involve a formal valuation and should not be regarded as such. Rushton Valuers have reviewed their last full valuation of the subject properties by reference to building price indexes, inflation, exchange rates and the like which may have impacted upon cost movements.

(c) Non-current assets pledged as security

Refer to note 24 for information on non-current assets pledged as security by the parent entity or its controlled entities.

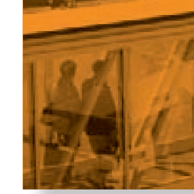
(d) Contractual obligations

Refer to note 33 for disclosure of any contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

(e) Leasing arrangements

The investment properties are leased to tenants under long-term operating leases with rentals payable monthly.

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
Minimum lease payments receivable on leases of investment properties are as follows.				
Minimum lease payments under non-cancellable operating leases of investment properties not recognised in the financial statements are receivable as follows:				
Within one year	11,445	10,529	10,121	9,347
Later than one year but not later than five years	29,050	28,018	25,526	24,148
Later than five years	26,077	20,733	17,245	11,444
	66,572	59,280	52,892	44,939

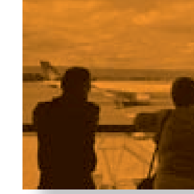


Note 15. Non-current assets - Deferred tax assets

	Consolidated		Parent entity	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Property, plant and equipment	1,709	-	-	-
Deferred expenses	60	67	34	41
Lease liabilities	737	40	737	41
Other	1,084	732	1,084	716
Provisions	373	299	1	-
Tax losses	1,023	598	1,023	598
	4,986	1,736	2,879	1,396
Amounts recognised directly in equity				
Cash flow hedges	1,374	-	1,374	-
Set-off deferred tax liabilities of parent entity pursuant to set-off provisions (note 25)	(6,360)	(1,736)	(4,253)	(1,396)
Net deferred tax assets	-	-	-	-
Movements:				
Opening balance at 1 July	1,736	2,507	1,396	1,790
Credit / (charged) to the income statement (Note 8)	3,250	(771)	3,177	879
Recognition of losses in subsidiaries	-	-	-	42
Subsidiary take-up of losses	-	-	(1,694)	(1,315)
Credit / (charged to equity)	1,374	-	1,374	-
Closing balance 30 June	6,360	1,736	4,253	1,396
Deferred tax assets to be recovered after more than 12 months	2,229	1,022	1,856	742
Deferred tax assets to be recovered within 12 months	4,131	714	2,397	654
	6,360	1,736	4,253	1,396

Note 16. Non-current assets - Intangible assets

Consolidated	Property Leases $'000	Goodwill $'000	Total $'000
At 1 July 2004			
Cost	20,853	179,410	200,263
Accumulated amortisation and impairment	(15,183)	-	(15,183)
Net book amount	5,670	179,410	185,080
Year ended 30 June 2005			
Opening net book amount	5,670	179,410	185,080
Additions	-	-	-
Amortisation charge	(396)	-	(396)
Closing net book amount	5,274	179,410	184,684
At 1 July 2005			
Cost	20,853	179,410	200,263
Accumulated amortisation and impairment	(15,579)	-	(15,579)
Net book amount	5,274	179,410	184,684
Year ended 30 June 2006			
Opening net book amount	5,274	179,410	184,684
Additions	-	-	-
Amortisation charge	(245)	-	(245)
Closing net book amount	5,029	179,410	184,439
At 30 June 2006			
Cost	20,853	179,410	200,263
Accumulated amortisation and impairment	(15,824)	-	(15,824)
Net book amount	5,029	179,410	184,439



Note 16. Non-current assets - Intangible assets (continued)

Parent entity	Property Leases $'000	Goodwill $'000	Total $'000
At 1 July 2004			
Cost	14,434	179,410	193,844
Accumulated amortisation and impairment	(14,132)	-	(14,132)
Net book amount	302	179,410	179,712
Year ended 30 June 2005			
Opening net book amount	302	179,410	179,712
Additions	-	-	-
Amortisation charge	(227)	-	(227)
Closing net book amount	75	179,410	179,485
At 1 July 2005			
Cost	14,434	179,410	193,844
Accumulated amortisation and impairment	(14,359)	-	(14,359)
Net book amount	75	179,410	179,485
Year ended 30 June 2006			
Opening net book amount	75	179,410	179,485
Additions	-	-	-
Amortisation charge	(75)	-	(75)
Closing net book amount	-	179,410	179,410
At 30 June 2006			
Cost	14,434	179,410	193,844
Accumulated amortisation and impairment	(14,434)	-	(14,434)
Net book amount	-	179,410	179,410

(a) Impairment tests for goodwill

Impairment of goodwill is determined against the total operations of the Group.

Calculations are based on a long term financial model (to 2048) using forward estimates of cash flows arising from the Group's operations, economic assumptions that impact key drivers such as passenger traffic, property lease market rates and CPI. The forecast cash flows are discounted using a post-tax nominal discount rate of 14%.

(b) Key assumptions used for discounted cash-flow calculations

(i) Passenger traffic forecasts

The group engages independent third party specialists to estimate forward passenger and aircraft traffic flows. These estimates are based on historic trends and economic factors affecting the market for air travel and air freight. Traffic forecasts are applied to estimates of aeronautical prices using a building block, depreciated optimised replacement cost pricing model.

Note 16. Non-current assets - Intangible assets (continued)

(ii) Property lease rentals

The Group engages independent third party specialists to advise on future estimates for property lease market rates and applies those rates to its current lease income making additional assumptions on the let-up periods for terminating leases, appropriate best use for available properties and opportunities for letting additional properties.

(c) Impact of possible changes in key assumptions

The recoverable amount of goodwill exceeds the carrying value of goodwill at 30 June 2006 by an amount which is sufficient to ensure there is not potential for impairment to goodwill in the foreseeable future. Management does not consider a change in any of the key assumptions will have a material impact on the recoverable amount.

Note 17. Non-current assets - Receivables

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Loans to tenants	438	438	438	438
Receivable from related entities	-	-	11,689	40,457
	438	438	12,127	40,895

Note 18. Non-current assets - Other

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Accrued Revenue	281	42	231	-
	281	42	231	-

Note 19. Derivative financial instruments

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Current liabilities				
Interest rate swap contracts - cash flow hedges	1,712	-	1,712	-
Total current derivative financial instrument liabilities	1,712	-	1,712	-
Non-current liabilities				
Interest rate swap contracts - cash flow hedges	2,868	-	2,868	-
Total non-current derivative financial instrument liabilities	2,868	-	2,868	-

(a) Transition to AASB 132 and AASB 139

The Group has taken the exemption available under AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* to apply AASB 132 *Financial Instruments: Disclosures and Presentation* and ASB 139 Financial Instruments: Recognition and Measurement from 1 July 2005. At the date of transition to these standards of 1 July 2005:

For the Group

A pre-tax net adjustment of a $17,847,000 decrease in net assets was recognised representing the fair value of interest rate cash flow hedges.

For the parent entity

A pre-tax net adjustment of a $17,847,000 decrease in net assets was recognised representing the fair value of interest rate cash flow hedges.

Note 19. Derivative financial instruments (continued)

(b) Instruments used by the Group

Interest rate swap contracts - cash flow hedges

Certain borrowings of the consolidated entity are subject to interest rate payments which are calculated by reference to variable bank bill reference rates. It is a Board policy to protect not less than 75% of the loans from exposure to increasing interest rates. Accordingly, the consolidated entity has entered into interest rate swap contracts under which it is obliged to receive interest at variable rates and to pay interest at fixed rates. The contracts are settled on a net basis and the net amount receivable or payable at the reporting date is included in other debtors or other creditors.

Swaps currently in place cover approximately 75% of the loan principal outstanding. The average fixed interest rate is 6.59% and the variable rates are based on the 90-day BBSY (bid) bank bill rate.

At 30 June 2006, the notional principal amounts and periods of expiry of the interest rate swap contracts are as follows:

	2006 $'000	2005 $'000
Less than 1 year		
1 - 2 years	50,000	81,000
2 - 3 years	163,000	50,000
3 - 4 years	-	163,000
4 - 5 years	180,000	180,000
	393,000	474,000

The contracts require settlement of net interest receivable or payable each 90 days. The settlement dates coincide with the dates on which interest is payable on the underlying debt.

The gain or loss from remeasuring the hedging instruments at fair value is deferred in equity in the hedging reserve, to the extent that the hedge is effective, and re-classified into profit and loss when the hedged interest expense is recognised. The ineffective portion is recognised in the income statement immediately. In the year ended 30 June 2006 no amounts were recorded in profit and loss in respect of ineffective hedges.

At balance date for both the Group and the parent entity these contracts were liabilities with fair value of $4,580,000 (2005 - not recognised). In the year ended 30 June 2006 there was:

- On the date of transition to AASB 132 and AASB 139 on 1 July 2005 a liability of $17,847,000 on recognition at fair value; and
- Increment in fair value of $13,267,000 during the year.

(c) Credit risk exposures

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted. The credit risk on financial assets of the consolidated entity which have been recognised on the statement of financial position is the carrying amount, net of any provision for doubtful debts. The consolidated entity minimises concentrations of credit risk by undertaking transactions with a large number of customers. The consolidated entity has a material exposure to the major Australian Domestic Airlines. Interest rate swaps are subject to credit risk in relation to the relevant counterparties, which are large Australian banks.

Note 19. Derivative financial instruments (continued)

(d) Interest rate risk exposures

The consolidated entity has entered into:

(i) A $230 million interest rate swap that swaps the consolidated entity's medium term note floating rate borrowings into fixed rates. $50 million matures on 31 December 2007 and the maturity of $180 million will coincide with the maturity of debt facilities in 2010. The contract involves quarterly payments and receipts of the net amount of interest. The weighted average fixed rate on the swap at 30 June 2005 is 6.697% and the floating rates are at prevailing 90 day BBSW market rates.

(ii)A $163 million interest rate swap that swaps a portion of the consolidated entity's construction facility floating rate borrowings into fixed rates in accordance with the consolidated entity's interest hedge policy. The swap commenced on 20 December 2005 and the notional amount varies over the term of the swap from a maximum of $213 million to a minimum of $148 million. The swap matures on 20 December 2010. The contract involves quarterly payments and receipts of the net amount of interest. The weighted average fixed rate on the swap is 6.44% and the floating rates are at the prevailing 90 day BBSY (BID) market rates.

Note 20. Current liabilities - trade and other payables

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Trade payables	2,622	19,190	2,622	19,190
Other payables	14,413	9,126	13,636	1,846
	17,035	28,316	16,258	21,036

Note 21. Current liabilities - Borrowings

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Secured				
Lease liability	221	86	221	86
	221	86	221	86

Details of the security relating to the lease liability are set out in note 24.

Note 22. Current liabilities - Provisions

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Provisions - annual leave	650	532	-	-
Provisions - long service leave	405	257	-	-
	1,055	789	-	-

Note 23. Current liabilities - Other

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Unsecured				
Retentions and deposits	314	1,089	314	457
Deferred Revenue	1,113	-	1,097	-
	1,427	1 089	1,411	457

Note 24. Non-current liabilities - Borrowings

	Note	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
Secured					
Medium term notes	24(a)(i)	257,867	256,493	-	(7,507)
Construction facility	24(a)(ii)	256,873	194,992	-	-
Working Capital Facility BankSA	24(a)(iii)	2,000	1,992	-	(8)
Lease liability (note 24)	24(a)(iv)	2,164	50	2,164	50
Land Transport Notes	24(a)(v)	226,729	204,837	226,729	204,837
Macquarie Bank Ltd Loan (note 1(y))	24(a)(v)	(226,729)	(204,837)	(228,820)	(204,837)
Deposit from related entity	24(a)(vi)	-	25,157	-	-
Prepaid capital work in progress to controlled entity (note 12)	24(a)(vi)	-	(25,157)	-	-
Total secured non-current borrowings		518,904	453,527	73	(7,465)
Unsecured					
Airport loan notes	24(c)	-	-	188,563	188,563
Redeemable preference shares	24(d)	188,006	187,937	-	-
Loans from related parties	35	-	-	486,557	466,337
Total unsecured non-current borrowings		188,006	187,937	675,120	654,900
Total non-current borrowings		706,910	641,464	675,193	647,435
(a) The total secured liabilities (current and non-current) are as follows:					
Medium term notes	24(a)(i)	257,867	256,493	-	(7,507)
Construction facility	24(a)(ii)	256,873	194,992	-	-
Working Capital Facility BankSA	24(a)(iii)	2,000	1,992	-	(8)
Lease liability	24(a)(iv)	2,385	136	2,385	136
Land Transport Notes	24(a)(v)	226,729	204,837	226,729	204,837
Macquarie Bank Ltd Loan (note 1(y))	24(a)(v)	(226,729)	(204,837)	(228,820)	(204,837)
Deposit from related entity	24(a)(vi)	-	25,157	-	-
Prepaid capital work in progress to controlled entity (note 12)	24(a)(vi)	-	(25,157)	-	-
Total secured liabilities		519,125	453,613	294	(7,379)

(i) The Medium Term Notes (MTN's) are a secured credit-wrapped Australian capital markets issue. The joint arrangers and lead managers of the issue were Australian and New Zealand Banking Group Limited and Westpac Banking Corporation. The MTN's are issued in registered form with a AAA credit rating with the benefit of credit enhancement in the form of a financial guarantee from MBIA Insurance Corporation. The proceeds from the 15 December 2000 issue ($240 million) were used to refinance existing senior bank debt and provide additional working capital. A further issue of $24 million was made 9 April 2003 the proceeds of which were used to fund the buy back of the subordinated floating rate notes and are fungible, and form a single series, with the $240 million issue. Interest is payable quarterly based on the 90 day BBSW bank bill rate plus a margin of 0.49%. Interest rate swap facilities have been used to effectively fix the interest rate paid as set out in note 19. The MTN's are secured by a charge over the entire assets and undertakings of the economic entity.

Note 24. Non-current liabilities - Borrowings (continued)

(ii) The construction facility is a syndicated bank loan for a term of 5 years expiring in November 2008. The facility is secured by a charge over the entire assets and undertakings of the economic entity

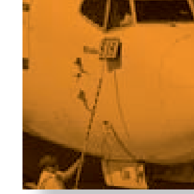
(iii) The working capital facility is secured by a charge over the entire assets and undertakings of the economic entity.

(iv) Lease liability is effectively secured as the rights to the leased assets revert to the lessor in the event of default.

(v) Land Transport Notes - $228.82 million facility is pursuant to a Land Transport Facilities Borrowing Agreement with the Commonwealth of Australia and associated agreements. The note holders qualify for an income tax rebate on interest received. The facility was drawn to $228.82 million as at 30 June 2006 (2005 - $205.744 million). $2.091 million in repayments has been received as at 30 June 2006. A legal right of set-off exists in respect $226.729 million, representing a loan payable by Macquarie Bank Ltd ("MBL") against the redemption of the Land Transport notes.

(vi) These sums, pursuant to the Land Transport Facilities Borrowing Agreement and associated Loan Facilitation and Deposit Agreements, are the consequence of timing differences in the draw downs between the construction facility from the project banks and the facilitation loan from MBL. A legal right of set off exists in respect of these amounts.

(b) Assets pledged as security	Note	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
Current					
Floating charge					
Cash assets	9	53,401	54,844	17,695	24,327
Receivables	10	6,057	5,928	6,057	5,928
Other	11	8,811	3,045	8,595	2,909
Total current assets pledged as security		68,269	63,817	32,347	33,164
Non-current					
Floating charge					
Property, plant and equipment (excluding leased plant and equipment)	12	315,184	288,623	315,184	288,623
Prepaid operating leases	13	124,142	125,507	124,142	125,507
Investment properties	14	180,760	169,681	158,215	148,526
Receivables	17	438	438	12,127	40,897
Other	18	281	42	231	(2)
		620,805	584,291	609,899	603,551
Finance Lease					
Leased plant and equipment	12	2,395	198	2,395	198
Total non-current assets pledged as security		623,200	584,489	612,294	603,749
Total assets pledged as security		691,469	648,306	644,641	636,913



Note 24. Non-current liabilities - Borrowings (continued)

(c) Airport loan notes

The Company has issued securities comprising of a $99 loan note totaling $188.563 million. The rights to the loan notes are subordinated to all other creditors and distributions to security holders may comprise interest paid on the loan notes and repayment of loan note principal. Under the terms of the Loan Note Deed Poll, the principal of the loan notes is to be repaid at predetermined rates beginning in 2033 with full maturity by 2048. The interest rate payable on the loan notes is a maximum of 15% as set out in the Loan Note Deed Poll; however the payment of interest is subject to sufficient cash being available to make payment. If interest is not paid in the relevant payment period because there is insufficient net cash available, it is permanently foregone under the terms of the Loan Note Deed Poll. The Airport Loan Notes, previously issued to the shareholders of Adelaide Airport Limited and stapled to the ordinary shares, were unstapled and sold by the holders to New Terminal Construction Company Pty Ltd on 18 June 2005.

(d) Redeemable preference shares

The Redeemable Preference Shares ("RPS") have been issued by New Terminal Construction Company Pty Ltd (NTC) in units of $99 totaling $188.563 million. The RPS have been stapled to the ordinary shares issued by Adelaide Airport Ltd on a one for one basis. The two components cannot be traded separately. The rights to the loan notes are subordinated to all other creditors and distributions to security holders comprise dividends paid on the RPS. The amount of dividend payable on the RPS is the amount of interest paid to NTC by the Company on the Airport Loan Notes.

(e) Standby arrangements and credit facilities

Unrestricted access was available at balance date to the following lines of credit:

	Consolidated		Parent entity	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
Bank loan facilities				
Working capital facility provided by BankSA	20,000	20,000	-	-
Used at balance date	(2,000)	(2,000)	-	-
Unused at balance date	18,000	18,000	-	-
Construction facility provided by a syndicate headed by Australia and New Zealand Banking Group Ltd	260,000	260,000	-	-
Used at balance date	(256,873)	(194,992)	-	-
Unused at balance date	3,127	65,008	-	-
Total facilities	280,000	280,000	-	-
Used at balance date	(258,873)	(196,992)	-	-
Unused at balance date	21,127	83,008	-	-

Note 24. Non-current liabilities - Borrowings (continued)

(f) Interest rate exposures

		Fixed interest rate						
	Floating interest rate	1 year or less	Over 1 to 2 yrs	Over 2 to 3 yrs	Over 3 to 4 yrs	Over 4 to 5 yrs	Over 5 years	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
2006								
Medium term notes	264,000	-	-	-	-	-	-	264,000
Working capital facility [i]	2,000	-	-	-	-	-	-	2,000
Construction facility [ii]	256,873	-	-	-	-	-	-	256,873
Redeemable preference shares [iii]	-	-	-	-	-	-	188,563	188,563
Land Transport Notes	-	-	-	-	226,729	-	-	226,729
Lease liabilities	-	7	22	53	261	2,042	-	2,385
Interest rate swaps [iv]	(393,000)	-	50,000	163,000	-	180,000	-	-
	129,873	7	50,022	163,053	226,990	182,042	188,563	940,550
Weighted average interest rate	6.6%	7.8%	6.7%	6.4%	5.5%	6.7%	15.0%	
2005								
Medium term notes	264,000	-	-	-	-	-	-	264,000
Working capital facility [i]	2,000	-	-	-	-	-	-	2,000
Construction facility [ii]	194,992	-	-	-	-	-	-	194,992
Redeemable preference shares [iii]	-	-	-	-	-	-	188,563	188,563
Land Transport Notes	-	-	-	-	204,837	-	-	204,837
Lease liabilities	-	24	12	32	68	-	-	136
Interest rate swaps [iv]	(474,142)	-	81,142	50,000	163,000	-	180,000	-
	(13,150)	24	81,154	50,032	367,905	-	368,563	854,528
Weighted average interest rate	-	7.6%	6.2%	6.7%	5.9%	-	10.9%	

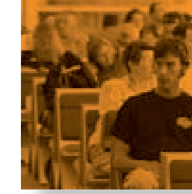
Footnotes

(i) A facility fee of 0.25% is also charged.

(ii) A commitment fee on the undrawn facility of 40% of the margin applicable on each interest payment date is also charged.

(iii) Dividends are payable on redeemable preference shares at a rate not exceeding 15%. They are non-cumulative and subject to the receipt of distributions to New Terminal Construction Company Pty Ltd from Adelaide Airport Ltd.

(iv) Notional principal amounts.



Note 24. Non-current liabilities - Borrowings (continued)

(g) Fair value

	2006 Carrying amount $'000	2006 Fair value $'000	2005 Carrying amount $'000	2005 Fair value $'000
On-balance sheet				
Non-traded financial liabilities				
Medium term notes	257,867	264,000	256,493	264,000
Working capital facility	2,000	2,000	2,000	2,000
Construction facility	256,873	256,873	194,992	194,992
Redeemable preference shares	188,006	188,563	187,936	188,563
Land Transport Notes	226,729	226,729	204,837	204,837
Lease liabilities	2,385	2,385	136	136
	933,860	940,550	846,394	854,528

Other than those classes of borrowings denoted as "traded", none of the classes are readily traded on organised markets in standardised form.

The fair value of borrowings is based upon market prices where a market exists or by discounting the expected future cash flows by the current interest rates for liabilities with similar risk profiles.

Note 25. Non-current liabilities - Deferred tax liabilities

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Accrued revenue and interest receivable	1,897	524	1,847	483
Property, plant and equipment and investment property	39,720	38,926	35,094	36,242
Intangibles	1,508	1,582	-	23
Prepaid operating lease	37,243	37,652	37,243	37,652
Borrowing costs	850	103	808	82
Provision for fringe benefits tax	1	1	1	1
Lease surrender payment	-	150	-	150
Other	85	13	69	-
	81,304	78,951	75,062	74,633
Amounts recognised directly in equity				
Cash flow hedges	-	-	-	-
Set-off deferred tax liabilities (note 15)	(6,360)	(1,736)	(4,253)	(1,396)
Net deferred tax liabilities	74,944	77,215	70,809	73,237
Movements:				
Opening balance at 1 July	78,951	75,747	74,633	71,423
Credit / (charged) to the income statement (Note 8)	2,353	3,204	429	3,210
Closing balance 30 June	81,304	78,951	75,062	74,633
Deferred tax liabilities to be recovered within 12 months	1,899	525	1,849	484
Deferred tax liabilities to be recovered after more than 12 months	79,405	78,426	73,213	74,149
	81,304	78,951	75,062	74,633

Note 26. Non-current liabilities - Provisions

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
Provisions - long service leave	187	208	-	-
	187	208	-	-

Note 27. Contributed equity

	Parent entity 2006 Shares	Parent entity 2005 Shares	Parent entity 2006 $'000	Parent entity 2005 $'000
Ordinary shares fully paid	1,904,676	1,904,676	1,905	1,905
	1,904,676	1,904,676	1,905	1,905

Note 28. Reserves and retained profits

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
(a) Reserves				
Hedging reserve - cash flow hedges	(3,206)	-	(3,206)	-
	(3,206)	-	(3,206)	-
Movements				
Adjustment on adoption of AASB 132 and AASB 139, net of tax (note m)	(12,493)	-	(12,493)	-
Revaluation - gross (note 19)	13,267	-	13,267	-
Deferred tax (note 23)	(3,980)	-	(3,980)	-
Balance 30 June	(3,206)	-	(3,206)	-
(b) Retained profits				
Balance 1 July	81,917	72,015	72,242	67,139
Profit/(Loss) - current year	(11,067)	9,902	(15,361)	5,103
Balance 30 June	70,850	81,917	56,881	72,242

(c) Nature and purpose of reserves

Hedging reserve - cash flow hedges

The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised directly in equity, as described in note (1(l)). Amounts are recognised in profit and loss when the associated hedged transaction affects profit and loss.

Note 29. Dividends

(a) Ordinary shares

No dividends were paid in the financial year.

(b) Redeemable preference shares

Dividends on these shares of 13.8% per annum (2005 - 9.18% per annum) totalling $26,213,885 (2005 - $17,311,055) paid quarterly have been charged to the income statement as interest and finance charges because the shares are classified as liabilities (refer note1(x)). The dividends are unfranked.

Note 30. Key management personnel disclosures

(a) Directors

The following persons were directors of Adelaide Airport Ltd during the financial year:

(i) Chairman - non-executive

D C Munt

(ii) Executive directors

P A Baker, Managing Director

(iii) Non-executive directors

P B Lucas (from 1 July 2005 - 15 December 2005)

J R McDonald

J A Rickus

G M Scott

J L Tolhurst

J F Ward

(iv) Alternate directors

M Delaney - alternate for J R Rickus

C E Gibson - alternate for G M Scott

(b) Other key management personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year:

Name	Position	Employer
M Andrews	Manager Business Development	Adelaide Airport Management Ltd
S Doyle	Office Manager	Adelaide Airport Management Ltd
L M Goff	Company Secretary	Adelaide Airport Management Ltd
K May	Manager Property Development	Adelaide Airport Management Ltd
J McArdle	Manager Corporate Affairs	Adelaide Airport Management Ltd
V Scanlon	Manager Airport Operations	Adelaide Airport Management Ltd
M D Young	Chief Financial Officer	Adelaide Airport Management Ltd

(c) Key management personnel compensation

	Consolidated 2006 $	Consolidated 2005 $	Parent entity 2006 $	Parent entity 2005 $
Short-term employee benefits	1,947,777	1,724,744	1,947,777	1,724,744
Superannuation	152,473	140,756	152,473	140,756
	2,100,250	1,865,500	2,100,250	1,865,500

Key management personnel compensation excludes insurance premiums paid by the parent entity in respect of directors' and officers' liability insurance contracts as the contracts do not specify premiums paid in respect of individual directors and officers. Information relating to the insurance contracts is set out in the directors' report. The terms of the insurance policy prohibit disclosure of the premiums paid.

Note 30. Key management personnel disclosures (continued)

(d) Other transactions with key management personnel

A director, Mr D C Munt is a partner in the firm of Thomson Playford, Solicitors. Thomson Playford has provided legal services to Adelaide Airport Limited and certain of its controlled entities for several years on normal commercial terms and conditions.

Aggregate amounts of the above transactions with directors of entities in the consolidated entity and their director-related entity

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Legal Fees	814	782	788	759

Note 31. Remuneration of auditors

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Remuneration for audit or review of the financial reports of the parent entity or any entity in the consolidated entity:	164,785	102,818	164,785	102,818
Other assurance services:				
Audit of Government Grant claim	2,400	-	2,400	-
Taxation services:				
Staff training services	1,050	-	1,050	-
	168,235	102,818	168,235	102,818

Note 32. Contingencies

(a) Contingent liabilities

As required by the consolidated entity's agreement with the Commonwealth of Australia, certain property developments on the airport site may be undertaken at some future date requiring tenants to relocate from existing properties.

In the event that these relocations are required, certain reimbursements may be claimed by the tenants from the consolidated entity for improvements made by the tenants to existing properties.

At this stage, the consolidated entity has no obligations to make any such reimbursements to tenants and no provision has been recorded in the financial statements to reflect these contingent obligations.

Note 33. Commitments for expenditure

As required by the Company's agreement with the Commonwealth of Australia, it is committed to a minimum level of development expenditure for the first and second five years of operation in respect of the Adelaide airport site. This commitment has been completely met through the expenditure during 2003/04 financial year on the New Terminal project. The Company is still committed to substantial expenditure to complete the New Terminal.

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
(a) Capital commitments				
Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:				
Property, plant and equipment Payable:				
Within one year	2,008	52,381	1,987	52,381
Later than one year but not later than 5 years	-	-	-	-
Later than 5 years	-	-	-	-
	2,008	52,381	1,987	52,381
Investment property				
Within one year	2,786	4,608	2,786	4,608
Later than one year but not later than 5 years	2,211	2,381	2,211	2,381
Later than 5 years	3,214	3,824	3,214	3,824
	8,211	10,813	8,211	10,813
(b) Lease commitments: Group company as lessee				
Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:				
Within one year	177	212	177	212
Later than one year but not later than 5 years	188	317	188	317
	365	529	365	529
Representing:				
Non-cancellable operating leases	365	529	365	529
Future finance charges on finance leases	557	18	557	18
	922	547	922	547

Note 33. Commitments for expenditure (continued)

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
(b) Lease commitments: Group company as lessee (continued)				
(i) Operating leases				
The Group leases various items of plant and equipment under non-cancellable operating leases. Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:				
Within one year	177	212	177	212
Later than one year but not later than five years	188	317	188	317
Later than five years	-	-	-	-
Commitments not recognised in the financial statements	365	529	365	529
(ii) Finance leases				
Commitments in relation to finance leases are payable as follows:				
Within one year	429	60	429	60
Later than one year but not later than five years	2,513	94	2,513	94
Later than five years	-	-	-	-
Minimum lease payments	2,942	154	2,942	154
Future finance charges	(557)	(18)	(557)	(18)
Recognised as a liability	2,385	136	2,385	136
Representing lease liabilities:				
Current (note 21)	221	86	221	86
Non-current (note 24)	2,164	50	2,164	50
	2,385	136	2,385	136

The weighted average interest rate implicit in the leases is 7.03% (2005 - 7.56%)

Note 34. Employee Entitlements

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
Employee entitlement liabilities				
Provision for employee entitlements -current (note 22)	1,055	789	-	-
Provision for employee entitlements - non-current (note 26)	187	208	-	-
Aggregate employee entitlement liability	1,242	997	-	-
Employee numbers				
Average number of employees during the financial year	121	111	-	-

Note 34. Employee Entitlements (continued)

As explained in note 1(u) the amounts for long service leave are measured at their present values. The following assumptions were adopted in measuring present values.

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
Weighted average rates of increase in annual employee entitlements to settlement of liabilities	6.00%	6.13%	-	-
Weighted average discount rates	5.78%	5.12%	-	-
Weighted average terms to settlement of the liabilities	12 years	12 years	-	-

Note 35. Related parties

(a) Parent entities

The parent entity within the Group is Adelaide Airport Ltd which is also the ultimate parent entity and ultimate controlling party.

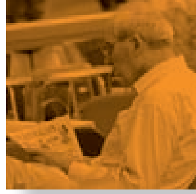
(b) Subsidiaries

Interests in subsidiaries are set out in note 36.

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 30.

(d) Transactions with related parties	Consolidated 2006 $	Consolidated 2005 $	Parent entity 2006 $	Parent entity 2005 $
Purchases of goods and services				
Purchase of human resources services to related companies	-	-	8,390,779	7,287,572
Purchase of payroll preparation services to related companies	-	-	61,808	55,167
Contract termination settlement	-	-	-	680,000
Contract management services	-	-	2,205,500	-
Tax consolidation legislation				
Current tax payable assumed from wholly-owned tax consolidated entities	-	-	1,694,297	1,315,531
Tax losses assumed from wholly-owned tax consolidated entities	-	-	-	42,176
Interest paid				
Interest paid to related companies	-	-	57,818,374	42,533,827
Superannuation contributions				
Contributions to superannuation funds on behalf of employees	603,237	546,608	-	-



Note 35. Related parties (continued)

(e) Outstanding balances arising from sales/purchases of goods and service

	Consolidated 2006	Consolidated 2005	Parent entity 2006	Parent entity 2005
	$	$	$	$
Current receivables (tax funding agreement)	-	-	1,694,297	1,315,531
Current payables (tax funding agreement)	-	-	-	42,176

Amounts due to and receivable from related parties within the wholly owned group are disclosed in the respective notes to the financial statements.

No provisions for doubtful debts have been raised in relation to any outstanding balances, and no expense has been recognised in respect of bad or doubtful debts due from related parties.

The terms and conditions of the tax funding agreement are set out in note 8(e).

All other transactions were made on normal commercial terms and conditions and at market rates, except that there are no fixed terms for the repayment of loans between the parties. The average interest rate on loans during the year was 6.7% (2005 - 6.8%)

Note 36. Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in 1(b)

Name of entity	Country of incorporation	Class of shares	Equity holding 2006	Equity holding 2005	Cost of parent entity's investment 2006	Cost of parent entity's investment 2005
			%	%	%	%
Adelaide Airport Management Limited*	Australia	Ordinary	100	100	5	5
Parafield Airport Limited*	Australia	Ordinary	100	100	5	5
New Terminal Financing Company Pty Ltd	Australia	Ordinary	100	100	2	2
New Terminal Construction Company Pty Ltd*	Australia	Ordinary	100	100	2	2
					14	14

* These subsidiaries have been granted relief from the necessity to prepare financial reports in accordance with class order 98/1418 issued by the Australian Securities and Investments Commission. For further information refer to note 39.

Note 37. Events occurring after balance sheet date

(a) Bond Issue

On 23 August 2006 New Terminal Financing Company Pty Limited through its lead managers ANZ Investment Bank and Westpac Institutional Bank, issued A$265 million of fixed and floating rate 10-year bonds credit wrapped (AAA / Aaa) by MBIA Insurance Corporation for repayment on 20 September 2016.

The floating rate issue ($165m) was priced at 90 day BBSW plus 25 basis points. The fixed rate issue ($100m) was priced at A$ Swap plus 25 basis points, resulting in a fixed coupon rate of 6.25%.

The proceeds of the issue were used to repay the syndicated bank finance facility used to finance the construction of Terminal 1 and which was due for repayment in November 2008. There were no costs incurred as a consequence of the early repayment of this facility.

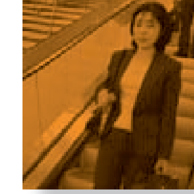
Costs associated with the bond issue will be recorded as an offset to the issue value of $265 million and will be amortised over the 10 year term of the liability in accordance with the stated accounting policies of the Economic Entity.

(b) Design and Construct Contract - Terminal 1

Pursuant to the Design and Construct contract the Economic Entity has finalised, with the Head Contractor, all delay costs and claims arising from a delay to the full commencement of operations in Terminal 1. As a consequence the Economic Entity has recorded $4.66 million as income in the 2005/06 financial year.

Note 38. Reconciliation of profit/(loss) from ordinary activities after income tax to net cash inflow from operating activities

	Consolidated 2006	Consolidated 2005	Parent entity 2006	Parent entity 2005
	$'000	$'000	$'000	$'000
Loss from ordinary activities after income tax	(11,067)	9,902	(15,361)	5,103
Depreciation and amortisation of property plant and equipment	13,601	5,604	13,590	5,603
Amortisation of intangible assets	245	396	76	227
Amortisation of borrowing costs	1,451	1,462	-	1,390
Amortisation of prepaid operating lease	1,365	1,365	1,365	1,365
Profit/Loss sale of assets	136	8	136	8
Fair value adjustment to investment property	2,278	(12,805)	3,049	(10,963)
Straight line adjustment of property lease income	(239)	101	(233)	113
Impairment of assets	38	18	-	-
Capitalised borrowing costs	(3,421)	(8,290)	(3,421)	(8,290)
Movements in deferred tax assets/deferred tax liabilities	(897)	3,974	(2,749)	2,331
Contract termination and master plan cash flows	-	(546)	-	80
Decrease (increase) in trade debtors and accrued income	(17,032)	1,371	(9,899)	1,395
Decrease (increase) in prepayments	(325)	(82)	(325)	(83)
Increase (decrease) in trade creditors	13,887	1,346	13,992	(448)
Increase (decrease) in other provisions	286	225	2	(6)
Net cash inflow from operating activities	306	4,049	222	(2,175)



notes to financial statements

Note 39. Deed of Cross Guarantee

Adelaide Airport Limited, Adelaide Airport Management Limited, Parafield Airport Limited and New Terminal Construction Company Proprietary Limited are parties to a deed of cross guarantee under which each company guarantees the debts of the others.
By entering into the deed, the wholly-owned entities have been relieved from the requirements to prepare a financial report and directors' report under Class Order 98/1418 (as amended by Class Orders 98/2017, 00/0321 and 01/1087) issued by the Australian Securities & Investments Commission.

(a) Consolidated income statement and a summary of movements in consolidated retained profits

The above companies represent a 'Closed Group' for the purposes of the Class Order, and as there are no other parties to the Deed of Cross Guarantee that are controlled by Adelaide Airport Limited, they also represent the 'Extended Closed Group'.

Set out below is a consolidated income statement and a summary of movements in consolidated retained profits for the year ended 30 June 2006 of the Closed Group consisting of Adelaide Airport Limited, Adelaide Airport Management Limited, Parafield Airport Limited and New Terminal Construction Company Proprietary Limited.

	2006 $'000	2005 $'000
Income Statement		
Revenue from continuing operations	97,900	44,392
Other income	655	692
Increments/(decrements in the fair value of investment properties	(2,278)	12,805
Employee benefits expense	(8,460)	(7,213)
Depreciation and amortisation expenses	(15,211)	(7,383)
Services & utilities	(18,688)	(10,909)
Consultants & advisors	(2,143)	(2,028)
General administration	(4,877)	(3,649)
Leasing & maintenance	(2,014)	(1,785)
Borrowing costs expense	(57,258)	(12,602)
Loss before income tax	**(12,374)**	**12,320**
Income tax benefit/(expense)	1,526	(3,507)
Loss for the year	**(10,848)**	**8,813**
Summary of movements in consolidated retained profits		
Retained profits at the beginning of the financial year	78,427	69,614
Loss from ordinary activities after income tax expense	(10,848)	8,813
Retained profits at the end of the financial year	**67,579**	**78,427**

(b) Balance sheet

Set out below is a consolidated balance sheet as at 30 June 2006 of the Closed Group consisting of Adelaide Airport Limited, Adelaide Airport Management Limited, Parafield Airport Limited and New Terminal Construction Company Proprietary Limited.

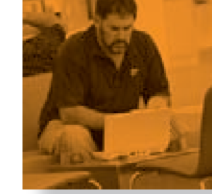
Note 39. Deed of Cross Gaurantee (continued)

(b) Balance sheet (continued)

	2006 $'000	2005 $'000
Current assets		
Cash assets	17,695	24,327
Receivables	6,058	5,927
Other	8,644	2,909
Total current assets	32,397	33,163
Non-current assets		
Property, plant and equipment	317,579	288,821
Prepaid operating lease	124,142	125,507
Investment properties	180,760	169,681
Intangible assets	184,439	184,684
Receivables	438	25,594
Other	281	42
Total non-current assets	807,639	794,329
Total assets	**840,036**	**827,492**
Current liabilities		
Payables	16,335	28,315
Interest bearing liabilities	221	86
Derivative financial instruments	4,580	-
Provisions	1,055	936
Other	1,427	1,089
Total current liabilities	23,618	30,426
Non-current liabilities		
Interest bearing liabilities	675,059	639,499
Deferred tax liabilities	74,894	77,174
Provisions	187	61
Total non-current liabilities	750,140	716,734
Total liabilities	**773,758**	**747,160**
Net assets	**66,278**	**80,332**
Equity		
Contributed equity	1,905	1,905
Reserves	(3,206)	-
Retained profits	67,579	78,427
Total equity	**66,278**	**80,332**

Note 40. Non-cash financing and investing activities

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Acquisition of plant and equipment by means of finance leases	2,422	107	2,422	107



Note 41. Explanation of transition to Australian equivalents to IFRSs

(1) Reconciliation of equity reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to equity under Australian equivalents to IFRSs (AIFRS)

(a) At the date of transition to AIFRS: 1 July 2004

		Consolidated			Parent entity		
		Previous AGAAP	Effects of transition to AIFRS	AIFRS	Previous AGAAP	Effects of transition to AIFRS	AIFRS
	Notes	$'000	$'000	$'000	$'000	$'000	$'000
Current assets							
Cash assets		47,189	-	47,189	18,432	-	18,432
Receivables		5,442	-	5,442	5,442	-	5,442
Other	(4)(a)	2,955	(680)	2,275	2,163	-	2,163
Total current assests		55,586	(680)	54,906	26,037	-	26,037
Non-current assets							
Property, plant and equipment	(4)(b)(c)(e)(f)	284,872	(147,806)	137,066	263,440	(126,375)	137,065
Investment property	(4)(b)	-	156,187	156,187	-	136,878	136,878
Prepaid Lease Prepayments	(4)(c)(e)	-	126,873	126,873	-	126,873	126,873
Intangible assets	(4)(a)(c)	204,282	(198,612)	5,670	203,614	(203,312)	302
Goodwill	(4)(c)	-	179,410	179,410	-	179,410	179,410
Receivable from other related companies		-	-	-	17,315	649	17,964
Other	(4)(g)	-	143	143	-	110	110
Total non-current assets		489,154	116,195	605,349	484,369	114,233	598,602
Total assets		**544,740**	**115,515**	**660,255**	**510,406**	**114,233**	**624,639**
Current liabilities							
Payables		16,390	-	16,390	16,390	-	16,390
Interest bearing liabilities		2,088	-	2,088	87	-	87
Provisions		515	-	515	-	-	-
Other		3,894	-	3,894	302	-	302
Total current liabilities		22,887	-	22,887	16,779	-	16,779
Non-current liabilities							
Interest bearing liabilities	(4)(a)	499,424	(9,466)	489,958	188,599	(8,904)	179,695
Provisions		250	-	250	-	-	-
Payable to other related companies		-	-	-	289,488	-	289,488
Deferred income tax liability	(4)(b)(c)(f)(i)	-	73,240	73,240	-	69,633	69,633
Total non-current liabilities		499,674	63,774	563,448	478,087	60,729	538,816
Total liabilities		**522,561**	**63,774**	**586,335**	**494,866**	**60,729**	**555,595**
Net assets		**22,179**	**51,741**	**73,920**	**15,540**	**53,504**	**69,044**
Equity							
Contributed equity		1,905	-	1,905	1,905	-	1,905
Reserves	(4)(c)(f)	53,954	(53,954)	-	51,925	(51,925)	-
(Accumulated losses)/ retained earnings	(4)(a)(b)(c)(e)(g)	(33,680)	105,695	72,015	(38,290)	105,429	67,139
Total Equity		**22,179**	**51,741**	**73,920**	**15,540**	**53,504**	**69,044**

Note 41. Explanation of transition to Australian equivalents to IFRSs (continued)

(b) At the end of the last reporting period under previous AGAAP: 30 June 2005

		Consolidated			Parent entity		
		Previous AGAAP	Effects of transition to AIFRS	AIFRS	Previous AGAAP	Effects of transition to AIFRS	AIFRS
	Notes	$'000	$'000	$'000	$'000	$'000	$'000
Current assets							
Cash assets		54,844	-	54,844	24,327	-	24,327
Receivables		5,928	-	5,928	5,928	-	5,928
Other	(4)(a)	3,044	-	3,044	2,909	-	2,909
Total current assets		63,816	-	63,816	33,164	-	33,164
Non-current assets							
Property, plant and equipment	(4)(b)(c)(e)(f)	433,617	(144,796)	288,821	412,875	(124,054)	288,821
Investment property	(4)(b)	-	169,681	169,681	-	148,526	148,526
Prepaid Lease Prepayments	(4)(c)(e)	-	125,507	125,507	-	125,507	125,507
Intangible assets	(4)(a)(c)	200,946	(195,672)	5,274	200,199	(200,124)	75
Goodwill	(4)(c)	-	179,410	179,410	-	179,410	179,410
Receivable from other related companies		438	-	438	40,248	647	40,895
Other	(4)(g)	-	42	42	-	-	-
Total non-current assets		635,001	134,172	769,173	653,322	129,912	783,234
Total assets		**698,817**	**134,172**	**832,989**	**686,486**	**129,912**	**816,398**
Current liabilities							
Payables		28,316	-	28,316	21,036	-	21,036
Interest bearing liabilities		86	-	86	86	-	86
Provisions		789	-	789	-	-	-
Other		1,089	-	1,089	457	-	457
Total current liabilities		30,280	-	30,280	21,579	-	21,579
Non-current liabilities							
Interest bearing liabilities	(4)(a)	649,605	(8,141)	641,464	188,613	(7,515)	181,098
Payable to other related companies		-	-	-	466,348	(11)	466,337
Provisions		208	-	208	-	-	-
Deferred income tax liability	(4)(b)(c)(f)(i)	-	77,215	77,215	-	73,237	73,237
Total non-current liabilities		649,813	69,074	718,887	654,961	65,711	720,672
Total liabilities		**680,093**	**69,074**	**749,167**	**676,540**	**65,711**	**742,251**
Net assets		**18,724**	**65,098**	**83,822**	**9,946**	**64,201**	**74,147**
Equity							
Contributed equity		1,905	-	1,905	1,905	-	1,905
Reserves	(4)(c)(f)	53,954	(53,954)	-	51,924	(51,924)	-
(Accumulated losses)/ retained earnings	(4)(a)(b)(c)(e)(g)	(37,135)	119,052	81,917	(43,883)	116,125	72,242
Total Equity		**18,724**	**65,098**	**83,822**	**9,946**	**64,201**	**74,147**

Note 41. Explanation of transition to Australian equivalents to IFRSs (continued)

(2) Reconciliation of profit for the year ended 30 June 2005

		Consolidated			Parent entity		
		Previous AGAAP	Effects of transition to AIFRS	AIFRS	Previous AGAAP	Effects of transition to AIFRS	AIFRS
	Notes	$'000	$'000	$'000	$'000	$'000	$'000
Revenue from ordinary activities	(g)(h)	71,979	(807)	71,172	66,208	(819)	65,389
Other income	(f)(b)	-	700	700	-	700	700
Increments/(decrements) in fair value of investment properties	(b)	-	12,805	12,805	-	10,963	10,963
Employee benefits expense		(7,213)	-	(7,213)	(6,876)	-	(6,876)
Depreciation and amortisation expenses	(a)(b)(c)(e)(f)	(11,463)	4,099	(7,364)	(10,715)	3,520	(7,195)
Impairment of assets	(e)	-	(18)	(18)	-	-	-
Services and utilities		(10,909)	-	(10,909)	(10,244)	-	(10,244)
Consultants and advisors	(a)	(2,573)	546	(2,027)	(2,271)	(81)	(2,352)
General administration		(3,650)	-	(3,650)	(3,568)	-	(3,568)
Leasing and maintenance		(1,785)	-	(1,785)	(1,622)	-	(1,622)
Borrowing costs expense		(37,826)	-	(37,826)	(37,753)	-	(37,753)
Profit/(loss) on disposal of non-current assets	(h)	(14)	6	(8)	(14)	6	(8)
Profit/(loss) before income tax		**(3,454)**	**17,331**	**13,877**	**(6,855)**	**14,289**	**7,434**
Income tax (expense)/benefit	(b)(c)(i)	-	(3,975)	(3,975)	1,262	(3,593)	(2,331)
Profit/(loss)attributable to members of Adelaide Airport Ltd		**(3,454)**	**13,356**	**9,902**	**(5,593)**	**10,696**	**5,103**

(3) Reconciliation of cash flow statement for the year ended 30 June 2005

The adoption of AIFRS has not resulted in any material adjustments to the cash flow statement.

Note 41. Explanation of transition to Australian equivalents to IFRSs (continued)

(4) Notes to the reconciliations

(a) Transitional adjustments

Under previous AGAAP the Group deferred expenses relating to the termination of the Airport Operation Service Agreement with a previous service provider in line with the agreed payment of the expense over a period of 10 quarters. It is considered that these contract termination payments do not qualify for deferral under AASB 138 *Intangible Assets* and therefore have been expensed when incurred.

Under previous AGAAP the Group capitalised the costs of preparing and reviewing the Airport Master Plans and amortised them over the periods over which the future economic benefits would relate. These costs do not meet the recognition rules relating to intangible assets under AIFRS and have therefore been expensed in the period in which they were incurred.

Under previous AGAAP the Group capitalised borrowing costs and amortised them over the term of the related borrowings. Application of AASB 139 *Financial Instruments Recognition and Measurement* means that borrowings are initially recognised net of transaction costs incurred. Borrowings are then subsequently measured at amortised cost, with any difference between the proceeds (net of transaction costs) and the redemption amount being recognised in the income statement over the period of the borrowing using the effective interest method.

The effects of these adjustments are:

(i) At 1 July 2004

For the group there has been a decrease in intangible assets of $9,644,000, a decrease in interest bearing liabilities of $9,466,000, a reduction in current assets - other of $680,000, a decrease in deferred tax liabilities of $257,000 and a decrease in retained earnings of $601,000. For the parent entity there has been a decrease in intangible assets of $9,015,000, a decrease in interest bearing liabilities of $8,904,000, a decrease in tax liabilities of $33,000 and a decrease in retained earnings of $78,000.

(ii) At 30 June 2005

For the group there has been a decrease in intangible assets of $8,361,000, a decrease in interest bearing liabilities of $8,141,000, a decrease in deferred tax liabilities of $66,000 and a decrease in retained earnings of $154,000. For the parent entity there has been a decrease in intangible assets of $7,652,000, a decrease in interest bearing liabilities of $7,515,000, a decrease in deferred tax liabilities of $41,000 and a decrease in retained earnings of $96,000.

(iii) For the year ended 30 June 2005

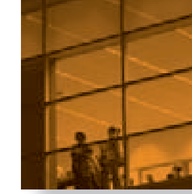
For the group consultants and advisors expense has decreased by $546,000, depreciation and amortisation decreased by $92,000, income tax expense has increased by $191,000 and current and retained earnings have increased by $447,000. For the parent entity consultants and advisors expense has increased by $81,000 depreciation and amortisation decreased by $55,000, income tax expense has decreased by $8,000 and retained earnings decreased by $18,000.

(b) Investment Property

Under previous AGAAP the Group measured investment property on a cost basis. At the date of transition the Group has elected to recognise investment property at fair value in accordance with AASB 140 *Investment Property*. The effect of this is:

(i) At 1 July 2004

For the Group, property, plant and equipment has been reduced by $68,848,000 due to the transfer at cost of existing "Investment Property" amounts to the new Investment Property asset class. "Investment Properties" have then been uplifted to fair value by a further $87,340,000. This fair value uplift has been tax effected, resulting in a $61,138,000 increase in Retained Earnings and a $26,202,000 increase in Deferred Tax Liabilities. For the parent entity plant and equipment has been reduced by $59,959,000 due to the transfer at cost of existing "Investment Property" amounts to the new Investment Property asset class. "Investment Properties" have then been uplifted to fair value by a further $76,920,000. This fair value uplift has been tax effected, resulting in a $53,845,000 increase in Retained Earnings and a $23,075,000 increase in Deferred Tax Liabilities.



Note 41. Explanation of transition to Australian equivalents to IFRSs

(b) Investment Property (continued)

(ii) At 30 June 2005

Property, plant and equipment has been reduced by $69,392,000 due to the transfer at cost of existing "Investment Property" amounts to the new Investment Property asset class. Property, plant and equipment has increased by $3,691,000. Deferred Tax Liability has increased by $1,107,000 and retained earnings increased by $2,584,000 being a write back of depreciation. "Investment Properties" have then been uplifted to fair value by a further $100,289,000. This fair value uplift has been tax effected, resulting in a $70,202,000 increase in Retained Earnings and a $30,087,000 increase in Deferred Tax Liabilities. For the parent entity property, plant and equipment has been reduced by $60,501,000 due to the transfer at cost of existing "Investment Property" amounts to the new Investment Property asset class. Property, plant and equipment has been increased by $3,366,000. Deferred Tax Liability has increased by $1,010,000 and retained earnings increase by $2,356,000 being a write back of depreciation. "Investment Properties" have then been uplifted to fair value by a further $88,024,000. This fair value uplift has been tax effected, with a $61,617,000 increase in Retained Earnings and a $26,407,000 increase in Deferred Tax Liabilities.

(iii) For the year ended 30 June 2005

For the group, depreciation and amortisation expense decreased by $3,691,000 and Income Tax Expense increased by $1,107,000 being write back of depreciation, other income arising from increments in fair value of investment properties increased by $12,948,000 and income tax expense increased by $4,991,000 as a result of increases in deferred tax liabilities. For the parent entity depreciation and amortisation expense decreased by $3,366,000 and Income Tax Expense increased by $1,010,000 being write back of depreciation, other income arising from increments in fair value of investment properties increased by $11,105,000 and income tax expense increased by $4,342,000 as a result of increases in deferred tax liabilities.

(c) Business combinations

The Group acquired Adelaide and Parafield Airports from the Commonwealth Government on 28 May 1998. The Group has applied AASB 3 *Business Combinations* to that acquisition. AASB 1 *First time Adoption of Australian Equivalents to International Financial Reporting Standards* requires that the Group separately identify intangible assets under specific criteria set out under AASB 138 Intangible Assets.

Under previous AGAAP the Group;

- recognised a lease premium as an intangible asset and amortised this over the life of the lease, and;
- the acquisition transaction costs were capitalized as intangible assets and amortised on a straight line basis over the period when the benefits were expected to arise.
- An election by the Group to apply AASB 3 retrospectively to the past business combination in conjunction with the application of AASB 138 Intangible Assets has the following consequences;
- The cost (total outlays) of the business combination has been measured. That cost has been allocated as follows;

- To the fair value at acquisition date of all the identifiable assets (including intangible assets), liabilities and contingent liabilities transferred as part of the business combination that meet the criteria in AASB 3 for recognition separate from goodwill. This includes any deferred tax assets and liabilities arising from temporary differences between the tax bases and fair values at the acquisition date of those identifiable assets, liabilities and contingent liabilities.
- Recognising as goodwill any difference between the cost of the combination and the net amount recognised for the identifiable assets, liabilities and contingent liabilities transferred as part of the business combination.

The useful lives of identified intangible assets are reassessed on an annual basis from the point of the business combination and any amortisation recognised is recorded through retained earnings on transition and thereafter via the Income Statement.

Goodwill acquired by AAL in the business combination is allocated to a cash generation unit (CGU). An annual impairment test is undertaken for each CGU and any resultant diminution in the carrying value of goodwill allocated to that CGU is recorded through retained earnings on transition and thereafter via the Income Statement.

Under previous AGAAP land was held as property plant and equipment and amortised over the period of the lease. Under IFRS the value of the land has been split between investment property and the balance treated as a prepaid lease payment. The investment property portion will be valued at fair value and the prepaid lease payment will continue to be amortised over the lease term.

Note 41. Explanation of transition to Australian equivalents to IFRSs (continued)

(c) Business combinations (continued)

The effect of these are:

(i) At 1 July 2004

For the group there has been an increase in prepaid operating lease of $135,784,000, an increase in goodwill of $179,410,000, an increase in deferred tax liabilities of $42,436,000 on recognition of identified intangible assets, a decrease in Property, plant and equipment of $101,825,000, a decrease in intangible assets of $188,967,000, a decrease in the revaluation reserve of $34,349,000 and an increase in retained earnings of $16,315,000. For the parent entity there has been an increase in pre-paid operating lease of $126,873,000, an increase in goodwill of $179,410,000, an increase in deferred tax liabilities of $38,151,000 on recognition of identified intangible assets, a decrease in Property, plant and equipment of $92,840,000, a decrease in intangible assets of $194,297,000, an increase in receivables from other related companies of $649,000, a decrease in the revaluation reserve of $34,084,000 and an increase in retained earnings of $15,728,000.

(ii) At 30 June 2005

For the group there has been an increase in prepaid operating lease of $134,419,000, an increase in goodwill of $179,410,000, an increase in deferred tax liabilities of $41,906,000 on recognition of identified intangible assets, a decrease in Property, plant and equipment of $100,604,000, a decrease in intangible assets of $187,310,000, a decrease in the revaluation reserve of $34,349,000 and an increase in retained earnings of $18,358,000. For the parent entity there has been an increase in pre-paid operating lease of $125,507,000, an increase in goodwill of $179,410,000, an increase in deferred tax liabilities of $37,673,000 on recognition of identified intangible assets, a decrease in Property, plant and equipment of $91,773,000, a decrease in intangible assets of $192,471,000, an increase in receivables from other related companies of $649,000, a decrease in the revaluation reserve of $34,084,000 and an increase in retained earnings of $17,733,000.

(iii) For the year ending 30 June 2005

For the Group there was a decrement in the Fair Value of investment properties by $142,000, depreciation and amortisation expense decreased by $1,654,000, income tax expense increased by $454,000 and retained profits increased by $1,054,000.

For the parent entity there was a decrement in the Fair Value of investment prpperties by $142,000, depreciation and amortisation expense decreased by $1,668,000, income tax expense increased by $458,000 and current and retained profits have increased by $1,068,000.

(d) Interest rate hedges

The Group has taken the exemption available under AASB 1 to apply AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* from 1 July 2005. At the transition date the effect of these standards for the Group and the parent entity is an adjustment net of tax of $12,493,000 decrease in net assets was recognised representing:

- the recognition of the mark to market value of the interest rate cash flow hedges under AASB 139 of $17,847,000; and
- recognition of the associated deferred tax asset of $5,354,000.

Interest swap instruments have been reviewed for effectiveness and fair value as at 1 July 2005. The Group's hedges have been assessed as effective.

(e) Impairment

As at 1 July 2004 the aeronautical assets at Parafield Airport were assessed as fully impaired as there was no net income generated by those assets.

(i) At 1 July 2004

For the Group the pre-paid operating lease decreased by $8,912,000, property plant and equipment was decreased by $3,555,000, deferred tax liabilities decreased by $3,740,000 and retained earnings decreased by $8,727,000. There was no effect on the parent entity.

(ii) At 30 June 2005

For the Group the pre-paid operating lease decreased by $8,912,000, property plant and equipment decreased by $3,343,000, deferred tax liabilities were decreased by $3,677,000 and retained earnings decreased by $8,578,000. There was no effect on the parent entity.

(iii) For the year ended 30 June 2005

For the Group depreciation and amortisation decreased by $230,000, there was additional impairment of assets of $18,000, income tax increased by $64,000 and current and retained earnings increased by $148,000. There was no effect on the parent entity.

Note 41. Explanation of transition to Australian equivalents to IFRSs (continued)

(f) Revaluation of assets

As at 1 July 2004 the Group elected to revalue the runways, taxiways and aprons to fair value and to adopt that value as deemed cost going forward under the exemption from other Australian equivalents to IFRSs provisions of AASB1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* paragraph 16.

The effects of these are:

(i) At 1 July 2004

For the Group and the parent entity property plant and equipment increased by $26,422,000, retained earnings increased by $18,495,000, and deferred tax liability increased by $7,927,000.

(ii) At 30 June 2005

For the Group and the parent entity property plant and equipment increased by $24,853,000, retained earnings increased by $17,397,000 and deferred tax liability increased by $7,456,000.

(iii) For the year ended 30 June 2005

For the Group depreciation and amortisation increased by $1,569,000, income tax decreased by $471,000 and retained earnings decreased by $1,098,000.

(g) Straight line adjustments to property lease income.

Under AASB 117 Leases, operating lease income is to be recognised on a straight line basis over the term of the lease. The Group has numerous operating leases from which it derives income which have as a condition of the lease fixed increases over all or part of the term of the leases.

The effects of these are:

(i) At 1 July 2004

For the Group accrued revenue increased by $143,000, deferred tax liabilities increased by $43,000 and retained earnings increased by $100,000. For the parent entity accrued revenue increased by $110,000, deferred tax liabilities increased by $33,000 and retained earnings increased by $77,000.

(ii) At 30 June 2005

For the Group accrued revenue increased by $42,000, deferred tax liabilities increased by $13,000 and retained earnings increased by $29,000. For the parent entity accrued revenue decreased by $2,000, deferred tax liabilities decreased by $1,000 and retained earnings decreased by $1,000.

(iii) For the year ended 30 June 2005

For the Group revenue decreased by $101,000, income tax expense decreased by $30,000 and retained earnings decreased by $71,000. For the parent entity revenue decreased by $113,000, income tax decreased by $34,000 and retained earnings decreased by $79,000.

(h) Presentation

Under previous AGAAP, proceeds from government grants was shown as revenue, under AIFRS this is now shown as other income.

Under previous AGAAP, proceeds from the disposal of non-current assets were shown as revenue and the cost of those assets was shown under the heading of “Carrying amount of non-current assets sold”. Under AIFRS the net profit or loss on disposal of non-current assets is disclosed as a single line.

(i) Income tax

Under AASB 112 Income taxes, deferred tax balances are determined using the balance sheet method which calculates temporary differences based on the carrying amounts of an entity’s assets and liabilities in the balance sheet and their associated tax bases. In addition, current and deferred taxes attributable to amounts recognised directly in equity are also recognised directly in equity.

The effects of these are:

(i) At 1 July 2004

For the Group, excluding the impacts identified in (a) to (g), deferred tax liabilities increased by $629,000 and retained earnings decreased by $629,000. For the parent entity deferred tax liabilities increased by $479,000 and retained earnings were decreased by $479,000. The total Deferred Tax Liability of $73,240,000 reflects the impacts referred to in (a) to (g) and the impact of applying AASB 112 including recognising the tax benefit relating to tax losses as a reduction in deferred tax liabilities.

Note 41. Explanation of transition to Australian equivalents to IFRSs (continued)

(i) Income tax (continued)

(ii) At 30 June 2005

For the Group, excluding the impacts identified in (a) to (g), deferred tax liabilities increased by $392,000 and retained earnings decreased by $392,000. For the parent entity deferred tax liabilities increased by $721,000 and retained earnings were decreased by $721,000. The total Deferred Tax Liability of $77,215,000 reflects the impacts referred to in (a) to (g) and the impact of applying AASB 112 including recognising the tax benefit relating to tax losses as a reduction in deferred tax liabilities.

(iii) For the year ended 30 June 2005

For the Group deferred income tax expense decreased by $174,000, current tax expense increased by $383,000 and retained earnings decreased by $209,000. For the parent entity deferred income tax expense decreased by $1,220,000, current tax expense increased by $890,000 and retained earnings decreased by $330,000. The total Deferred Tax Expense of $3,975,000 reflects the impacts referred to in (a) to (g) and the impact of applying AASB 112 including recognising the tax benefit relating to tax losses as a reduction in deferred tax liabilities.

(j) Revaluation Reserve

Under AASB1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* the Group has reclassified the balance of the asset revaluation reserve account to retained earnings on the adoption of the cost model for assets held other than those now classified as investment properties.

The effects of these are:

(i) At 1 July 2004

For the Group reserves decreased by $19,605,000 and retained earnings increased by $19,605,000. For the parent entity reserves decreased by $17,840,000 and retained earnings increased by $17,840,000.

(ii) At 30 June 2005

For the Group reserves decreased by $19,605,000 and retained earnings increased by $19,605,000. For the parent entity reserves decreased by $17,840,000 and retained earnings increased by $17,840,000.

(iii) For the year ended 30 June 2005

For the Group and the parent entity there was no effect on the net income for the period.

(k) Retained earnings

The effect on retained earnings of the changes set out above are as follows:

		1 July 2004		30 June 2005	
		Consolidated	Parent entity	Consolidated	Parent entity
	Notes	$’000	$’000	$’000	$’000
Transitional adjustments	(a)	(601)	(78)	(154)	(96)
Recognition of investment property	(b)	61,138	53,845	72,787	63,973
Business combinations	(c)	16,315	15,728	18,358	17,733
Impairment of Parafield aeronautical assets	(e)	(8,727)	-	(8,578)	-
Revaluation of Adelaide runways, taxiways and aprons tax effected	(f)	18,495	18,495	17,397	17,397
Straight line adjustments to income from property leases	(g)	100	77	29	(1)
Adjustment of Deferred tax assets and liabilities by the tax balance sheet method	(i)	(629)	(479)	(392)	(721)
Reclassification of revaluation reserve	(j)	19,605	17,840	19,605	17,840
Total adjustments to retained earnings		**105,696**	**105,428**	**119,052**	**116,125**

(l) The disclosures in this note vary from the disclosures in the 31 December 2005 half-year financial report. The differences principally relate to prepaid operating lease, investment properties, deferred tax balances and are the result of the Group having formally completed work around the transition to AIFRS.

directors' declaration

Adelaide Airport Limited Directors' declaration 30 June 2006

The directors declare that the financial statements and notes set out on pages 8 to 61:

(a) comply with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

(b) give a true and fair view of the company's and consolidated entity's financial position as at 30 June 2006 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date.

In the directors' opinion:

(a) the financial statements and notes are in accordance with the *Corporations Act 2001*; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

(c) at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group identified in note 39 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 39.

This declaration is made in accordance with a resolution of the directors.

John Rickus
Director

Phillip Baker
Director .

Adelaide 4 October 2006

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
ABN 52 780 433 757

91 King William Street
ADELAIDE SA 5000
GPO Box 418
ADELAIDE SA 5001
DX 77 Adelaide
Australia
www.pwc.com/au
Telephone +61 8 8218 7000
Facsimile +61 8 8218 7999

Independent audit report to the members of Adelaide Airport Limited

Matters relating to the electronic presentation of the audited financial report

This audit report relates to the financial report and remuneration disclosures of Adelaide Airport Limited (the Company) and the Adelaide Airport Limited Group (defined below) for the financial year ended 30 June 2006 included on Adelaide Airport Limited's web site. The Company's directors are responsible for the integrity of the Adelaide Airport Limited web site. We have not been engaged to report on the integrity of this web site. The audit report refers only to the financial report identified below. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

Audit opinion

In our opinion the financial report of Adelaide Airport Limited:

- gives a true and fair view, as required by the *Corporations Act 2001* in Australia, of the financial position of Adelaide Airport Limited and the Adelaide Airport Limited Group (defined below) as at 30 June 2006, and of their performance for the year ended on that date; and
- is presented in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, and the *Corporations Regulations 2001*.

This opinion must be read in conjunction with the rest of our audit report.

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, cash flow statements, statement of changes in equity, accompanying notes to the financial statements, and the directors' declaration for both Adelaide Airport Limited (the company) and the Adelaide Airport Limited Group (the consolidated entity), for the year ended 30 June 2006. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for

PRICEWATERHOUSECOOPERS

the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected. For further explanation of an audit, visit our website http://www.pwc.com/au/financialstatementaudit.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations, changes in equity and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report; and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

AG Forman
Partner

Adelaide
4 October 2006

Chairman

David Munt

Managing Director

Phil Baker

Directors

John McDonald

Alan Mulgrew

John Rickus

Graham Scott

James Tolhurst

John Ward

Major Bankers

Australia and New Zealand
Banking Group Ltd

Solicitors

Thomson Playford

Corporate Advisors

Ernst & Young

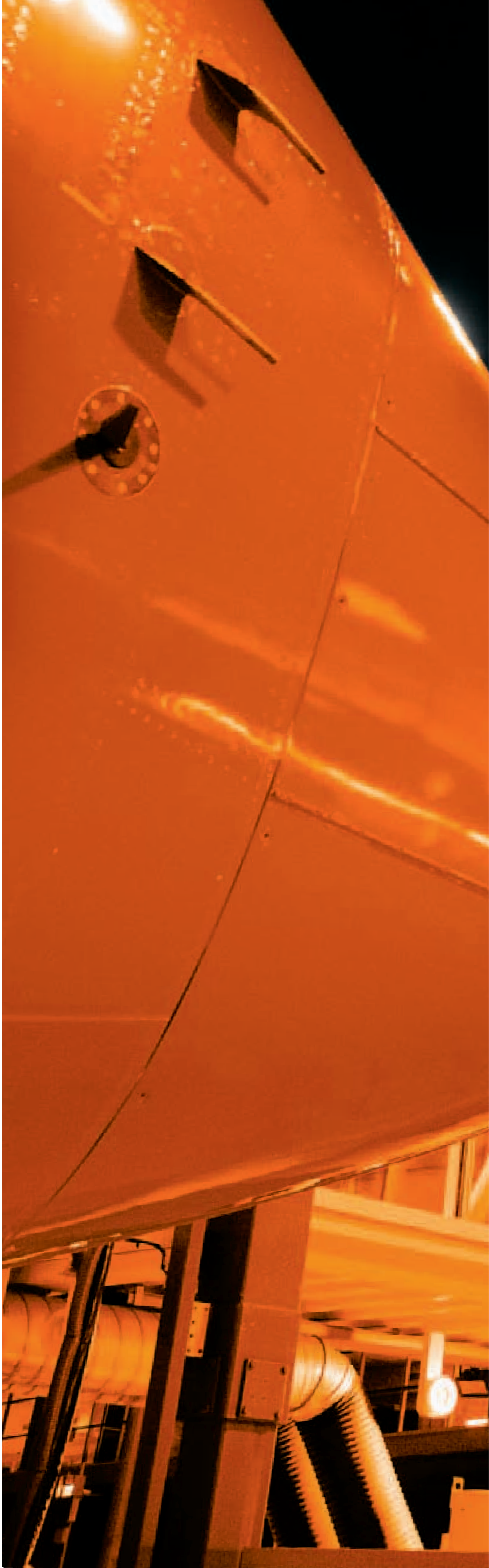
Auditors

PricewaterhouseCoopers

Registered Office

1 James Schofield Drive
Adelaide Airport
South Australia 5950
Phone: +61 8 8308 9211
Fax: +61 8 8308 9311
Email: airport@aal.com.au
Website: www.aal.com.au

Adelaide Airport



Annual Report
05_06

Adelaide
Airport

1 James Schofield Drive
Adelaide Airport
South Australia 5950
Phone: +61 8 8308 9211
Fax: +61 8 8308 9311
Email: airport@aal.com.au
Website: www.aal.com.au