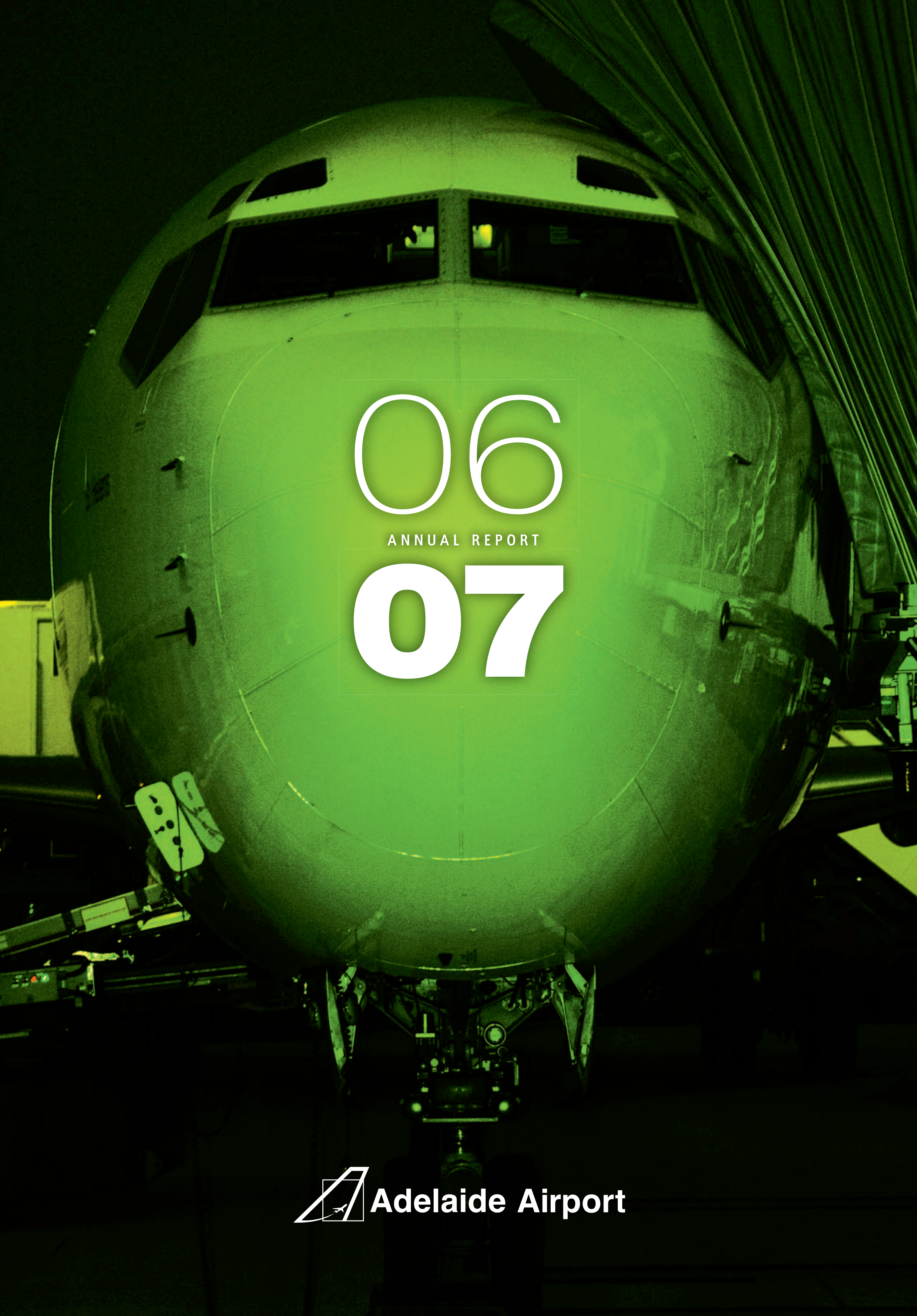
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ANNUAL REPORT
07
Adelaide Airport

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 Limited

ACN 075 176 653   ABN 78 075 176 653

2nd best international airport 5-15 million passengers

In respect of the financial year ended 30 June 2007, the directors of Adelaide Airport Limited 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)
John Robert McDonald	
Alan Mulgrew	Appointed 6 September 2006
John Arthur Rickus	
Graham McLennan Scott	
James Leonard Tolhurst	
John Frederick Ward	
Caroline Elaine Gibson	(Alternate for Graham Scott) Resigned 19 June 2007
Nicholas Szuster	(Alternate for Graham Scott) Appointed 28 August 2007
Michael Delaney	(Alternate for John Rickus)

Principal Activities

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

Trading Results	2007 $'000	2006 $'000
The result for the financial year for the economic entity was	457	(11,307)

Dividends	2007 $'000	2006 $'000
Dividends paid to members during the financial year were as follows:		
Ordinary dividend	26,550	-

No further recommendation is made as to dividends for the 2007 financial year (30 June 2006: $Nil). Dividends on Redeemable Preference Shares amounting to $28.3 million were paid or provided for during the year (30 June 2006: $26.2 million).

Review of Operations

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

(a) Aeronautical services

The aviation market continued to grow strongly in 2006/07 in all sectors. Passenger growth at Adelaide Airport was 8.3%, up 0.8% on the previous year and passenger traffic increased from 5.8 million to 6.3 million passengers. Growth was particularly strong in the international sector at 28.4%. Qantas has recently withdrawn its New Zealand Services but Air New Zealand has increased its services in response to the demand and will progressively move to daily services during the next financial year. Cathay Pacific is moving to daily services also during the next financial year whilst Malaysian Airlines will extend services to 5 per week for the December 2008 to February 2008 period to service seasonal demand. Regional services also experienced strong growth of 14.7% reflecting the current buoyant regional economies despite the drought. Aeronautical income grew strongly on the back of the passenger growth and the receipt of a full year of the Passenger Facilitation Charge resulting in an increase over the previous year of 50%.

(b) Non-aeronautical services

Property income grew by 14.4% on the previous year with a full year of income from retail and airlines accommodated in T1. New developments on ground leases were taken up in Burbridge Business Park, Harbortown and Parafield Commercial Estate. Three buildings reverted to AAL during the year on the termination of long term site leases. These buildings are or will be refurbished and leased. Investment properties have increased in value substantially reflecting the growing popularity of the Airport as a business centre and the general strengthening of the property rental market.

Changes in the State of Affairs

On 23 August 2006 New Terminal Financing Company Pty Ltd 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 (A$165m) was priced at 90 day BBSW plus 25 basis points. The fixed rate issue (A$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 payment in November 2008. There were no penalty break costs incurred as a consequence of the early repayment of this facility.

Matters subsequent to the end of the financial year

No other matter or circumstance has arisen since 30 June 2007 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

Adelaide Airport Limited (AAL) has met, and in most areas exceeded, the environmental obligations set under the *Airports Act 1996* (the Act) and *Airports (Environment Protection) Regulations 1997* (the Regulations), and monitored by the Department of Transport and Regional Services (DOTARS) Airport Environment Officer (AEO). In the past year, no actions by AAL operators or tenants have resulted in any Authorisations or Environmental Protection Orders being issued by the AEO.

In developing Adelaide Airport as South Australia's premier aviation gateway, AAL continues to focus well beyond regulatory compliance to ensure the growing demand for aviation infrastructure and commercial real estate is done sustainably in balance with today's economic, environmental and social imperatives. AAL has substantially strengthened its foundation for sustainable business and development in establishing its carbon footprint - a crucial first step in a long-term greenhouse gas reduction program. Subsequent energy and water audits of our company administration buildings have enabled us to implement efficiency measures that will be soon rolled out to other buildings, including Terminals 1 and 2.

There were no new Major Development Plan submissions for the reporting period. Works, however, to relocate and remediate three vernal pools were completed prior to construction of Elder Smith Road through Parafield Airport. The vernal pools - protected by Parafield Airport Limited within a dedicated "conservation zone" - will be the focus of an annual monitoring program, to determine the outcome of the remedial works on ecosystem health.

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 immediate past 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

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, 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 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, FAICD, B. Ec, **Director**

John was appointed as a non-executive director on the 1 September 1998. John is Chairman of Flinders Ports Pty Ltd, Chairman of Principle Advisory Services and the independent Chair of the Audit Committee of the Federal Court of Australia. He is a past President of the Motor Trades Association of Australia and his business career spanned 10 years in stockbroking in both the UK and Australia and 25 years as a proprietor in the retail motor industry in Australia.

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 a member of the Board of the Local Super SA-NT and Chairman of Unisure 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 is currently the Chair of the Queensland Airports Ltd group of companies, a director of Leichhardt Coal Pty Ltd and Blair Athol Coal 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. He has been the Principal Executive Officer and Secretary of the MTAA Superannuation Fund since its inception in 1989. 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. Michael is a Member of Council of the Australian National University as well as Chairman of the ANU's Finance Committee.

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

Caroline was appointed on the 17 December 2003 as an alternate director for Graham Scott. Caroline was the Chief Investment Officer of Local Super SA-NT. Caroline resigned 19 June 2007.

NICHOLAS SZUSTER, BA, **Alternate Director**

Nic was appointed on 28 August 2007 as an alternate director for Graham Scott. Nic is the Chief Executive of Local Super. Local Super is the superannuation fund covering local government employees in South Australia and Northern Territory. Prior to joining Local Super, Nic was a Principal with Mercer Human Resource Consulting from 1986 to 2005 specialising in superannuation administration, consulting and actuarial services.

COMPANY SECRETARIES

LEN GOFF, FPNA, GRAICD

Len was appointed Company Secretary on the 29 March 1999. Len has had 20 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 27 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		Meetings of committees		
	Full meetings of directors	Audit and Compliance Committee	Remuneration Committee	Building & Property Development Committee
Meetings held	**12**	**5**	**2**	**7**
Director				
Phillip Baker	12	*	*	7
John McDonald	12	*	*	7
Alan Mulgrew	9 [11]	*	*	6 [7]
David Munt	12	*	2	7
John Rickus	11 [12]	5	2	6 [7]
Graham Scott	7 [12]	5	*	4 [7]
James Tolhurst	12	5	2	6 [7]
John Ward	12	*	2	5 [7]
Michael Delaney	-	*	*	*
Caroline Gibson	-	*	*	*

* denotes not a member

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.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 7.

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, 3 October 2007

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 2 8218 7000
Facsimile +61 2 8218 7999

Auditor's Independence Declaration

As lead auditor for the audit of Adelaide Airport Limited for the year ended 30 June 2007, 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
3 October 2007

Financial report - 30 June 2007

Income Statements for the year ended 30 June 2007

		Consolidated		Parent entity	
		2007	2006	2007	2006
	Note	$'000	$'000	$'000	$'000
Revenue from continuing operations	4	126,275	99,436	117,523	91,044
Other income	5	874	829	666	829
Increments/(decrements) in fair value of investment properties	14	7,803	(2,278)	5,334	(3,049)
Employee benefits expense		(10,109)	(8,460)	(9,476)	(8,131)
Depreciation and amortisation expenses	7	(17,540)	(15,211)	(17,380)	(15,031)
Services & utilities		(23,351)	(18,688)	(22,651)	(18,149)
Consultants & advisors		(3,630)	(2,143)	(3,412)	(2,013)
General administration		(5,122)	(4,878)	(4,991)	(6,952)
Leasing & maintenance		(3,459)	(2,014)	(3,197)	(1,845)
Borrowing costs expense	7	(66,765)	(58,623)	(79,303)	(66,047)
Profit/(Loss) on disposal of property, plant and equipment		139	(136)	139	(137)
Impairment of property, plant and equipment		(275)	(38)	-	-
Profit/(Loss) from ordinary activities before income tax expense		**4,840**	**(12,204)**	**(16,748)**	**(29,481)**
Income tax (expense)/benefit attributable to operating profit/(loss)	8	(4,383)	897	2,147	6,090
Profit/(Loss) attributable to members of Adelaide Airport Ltd		**457**	**(11,307)**	**(14,601)**	**(23,391)**

Certain comparatives have been restated from the prior year, see note 6.

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

Balance sheets as at 30 June 2007

		Consolidated		Parent entity	
		2007	2006	2007	2006
	Note	$'000	$'000	$'000	$'000
Current assets					
Cash and cash equivalents	9	36,278	53,401	25,024	17,695
Receivables	10	8,440	6,057	8,440	6,057
Other	11	4,399	8,811	4,292	8,595
Total current assets		49,117	68,269	37,756	32,347
Non-current assets					
Receivables	17	431	438	15,963	12,127
Property, plant and equipment	12	310,147	317,579	310,147	317,579
Prepaid operating leases	13	122,764	124,142	122,764	124,142
Investment property	14	191,494	180,760	166,435	158,215
Intangible assets	16	184,283	184,439	179,410	179,410
Derivative financial instruments	18	9,977	-	3,581	-
Total non-current assets		819,096	807,358	798,300	791,473
Total assets		**868,213**	**875,627**	**836,056**	**823,820**
Current liabilities					
Payables	19	17,154	17,035	14,316	16,258
Borrowings	20	504	221	504	221
Derivative financial instruments	18	24	1,712	24	1,712
Current tax liabilities		4,149	-	4,149	-
Provisions	21	1,137	1,055	-	-
Other	22	362	330	362	314
Total current liabilities		23,330	20,353	19,355	18,505
Non-current liabilities					
Borrowings	23	708,399	706,910	728,543	682,987
Deferred tax liabilities	24	79,538	74,944	72,957	70,809
Derivative financial instruments	18	-	2,868	-	2,868
Provisions	25	496	187	-	-
Other	26	3,102	1,097	3,102	1,097
Total non-current liabilities		791,535	786,006	804,602	757,761
Total liabilities		**814,865**	**806,359**	**823,957**	**776,266**
Net assets		**53,348**	**69,268**	**12,099**	**47,554**
Equity					
Contributed equity	27	1,905	1,905	1,905	1,905
Reserves	28(a)	6,967	(3,206)	2,490	(3,206)
Retained profits	28(b)	44,476	70,569	7,704	48,855
Total equity		**53,348**	**69,268**	**12,099**	**47,554**
Equity and stapled securities					
Total equity		53,348	69,268	12,099	47,554
Redeemable Preference Shares	23	188,076	188,006	-	-
Total equity		**241,424**	**257,274**	**12,099**	**47,554**

Certain comparatives have been restated from the prior year, see note 6. The above balance sheets should be read in conjunction with the accompanying notes.

Statements of changes in equity for the year ended 30 June 2007

		Consolidated		Parent entity	
		2007	2006	2007	2006
	Note	$'000	$'000	$'000	$'000
Total equity at the beginning of the financial-year		**69,268**	**83,781**	**47,554**	**74,151**
Adjustment on adoption of AASB 132 and AASB 139, net of tax - Reserves		-	(12,493)	-	(12,493)
Change in market value of cash flow hedges, net of tax	18	10,173	9,287	5,696	9,287
Profit/(Loss) for the financial-year		457	(11,307)	(14,601)	(23,391)
Total recognised income and expense for the financial-year		**10,630**	**(14,513)**	**(8,905)**	**(26,597)**
Dividends provided for or paid	29	(26,550)	-	(26,550)	-
Total equity at the end of the financial-year		**53,348**	**69,268**	**12,099**	**47,554**

Certain balances have been restated from the prior year, see note 6.

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 2007

		Consolidated		Parent entity	
		2007	2006	2007	2006
	Note	$'000	$'000	$'000	$'000
Cash flows from operating activities					
Receipts from customers (inclusive of GST)		149,753	104,722	134,031	91,268
Payments to suppliers and employees (inclusive of GST)		(71,304)	(49,195)	(58,793)	(40,644)
Interest received		6,987	6,410	2,735	4,665
Interest and other borrowing costs paid		(41,831)	(35,189)	(79,871)	(55,067)
RPS Dividend		(28,284)	(26,442)	-	-
Net cash inflow/(outflow) from operating activities	37	**15,321**	**306**	**(1,898)**	**222**
Cash flows from investing activities					
Payments for property, plant and equipment		(12,823)	(68,050)	(12,498)	(67,382)
Proceeds from sale of property, plant and equipment		271	2,172	271	2,172
Net cash outflow from investing activities		**(12,552)**	**(65,878)**	**(12,227)**	**(65,210)**
Cash flows from financing activities					
Proceeds from borrowings		265,525	64,130	525	2,249
Dividends paid to shareholders		(26,550)	-	(26,550)	-
(Loans to)/repayments made by tenants		6	(1)	6	(1)
Repayment of borrowings		(258,873)	-	-	-
Loans from associated companies		-	-	47,473	56,108
Net cash inflow/(outflow) from financing activities		**(19,892)**	**64,129**	**21,454**	**58,356**
Net decrease in cash held		**(17,123)**	**(1,443)**	**7,329**	**(6,632)**
Cash at the beginning of the financial year		53,401	54,844	17,695	24,327
Cash at the end of the financial year	9	**36,278**	**53,401**	**25,024**	**17,695**

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

Note 1. Summary of significant accounting policies

This general purpose financial report for the reporting period ended 30 June 2007 has been prepared in accordance with Australian Accounting Standards, 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.

Compliance with International Financial Reporting Standards (IFRS)
Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the consolidated financial statements and notes of Adelaide Airport Ltd comply with IFRS. The parent entity financial statements and notes also comply with IFRS except that it has elected to apply the relief provided to parent entities in respect of certain disclosure requirements contained in AASB 132 *Financial Instruments: Disclosures and Presentation.*

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 judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement 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 2007 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.

(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) or 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.

Note 1. Summary of significant accounting policies (continued)

(c) Revenue recognition (continued)

(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.

(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.

south australian achiever of the year 2006 - phil baker adelaide airport managing director

Note 1. Summary of significant accounting policies (continued)

(l) Derivatives

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.

The fair values of cash flow hedge derivative financial instruments used are disclosed in note 18. Movements in the hedging reserve in shareholders' equity are shown in note 28. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

(i) 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

Tenant contributions 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.

(n) Property, plant and equipment (continued)

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:

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 of all 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.

Note 1. Summary of significant accounting policies (continued)

(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.

Buildings reverting to the Group at the termination of leases are valued at fair value as at the end of the financial year in which they revert and the amount is included in the total change in fair value of investment assets.

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.

(iii) Long Term Executive Incentive Plan (LTEIP)

The Group recognises a liability and an expense for bonuses based on a formula that takes into account the appreciation in shareholder wealth arising from each year of the Group's operations which are payable after a period of four year's accumulation subject to certain conditions contained in a formal agreement. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

(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.

(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.

Note 1. Summary of significant accounting policies (continued)

(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) Operating segments

The Group has elected to adopt AASB 8 *Operating Segments* for the current financial year ahead of its operative date.

(ab) 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) *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 and the parent entity's financial instruments.

(ii) *AASB-I 10 Interim Financial Reporting and Impairment*

AASB-I 10 is applicable to reporting periods commencing on or after 1 November 2006. The Group has not recognised an impairments loss in relation to Goodwill, investments in equity instruments or financial assets in an interim reporting period. Application of the interpretation will therefore have no impact on the Group's or the parent entity's financial statements.

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) on the following page.

(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 judgements

Estimates and judgements 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 judgements

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 judgement 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 reporting notes 14, 18 and 16 respectively.

Note 4. Revenue

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent entity 2007 $'000	Parent entity 2006 $'000
From continuing operations				
Sales revenue				
Aeronautical revenue	69,570	46,369	69,398	46,243
Commercial trading revenue	23,876	17,643	22,407	16,275
Property revenue	24,556	24,197	21,589	21,417
Other revenue	1,394	5,718	1,393	5,654
	119,396	93,927	114,787	89,589
Other revenue				
Interest	6,879	5,509	2,736	1,455
	6,879	5,509	2,736	1,455
	126,275	99,436	117,523	91,044

Note 5. Other Income

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent entity 2007 $'000	Parent entity 2006 $'000
Government grants	874	829	666	829
	874	829	666	829

Note 6. Adjustment to prior year financial statements

The 30 June 2006 parent entity income statement incorporates an additional expense of $7,796,000 to correct allocations of inter-company interest income and expense amongst group companies. There is no impact on the Group result from this adjustment.

An additional expense was reflected in the 30 June 2006 consolidated group income statement of $281,000 (parent entity $229,000) arising from a revised application of AASB 117: *Leases to rental income.*

Note 7. Expenses

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent entity 2007 $'000	Parent entity 2006 $'000
Profit before income tax includes the following specific expenses				
Depreciation of:				
Buildings	4,111	96	4,111	96
Leasehold improvements	4,996	4,293	4,993	4,292
Plant & equipment	3,966	1,007	3,965	999
Computers, office equipment, furniture & fittings	2,933	418	2,933	416
New Terminal costs in capital work in progress (note 12)	-	7,787	-	7,787
Total depreciation of property plant and equipment	16,006	13,601	16,002	13,590
Amortisation of:				
Prepaid operating lease	1,378	1,365	1,378	1,365
Property lease	156	245	-	76
Total amortisation	1,534	1,610	1,378	1,441
Total amortisation and depreciation	**17,540**	**15,211**	**17,380**	**15,031**
Finance costs:				
Interest on Airport Loan Notes	-	-	28,285	26,214
Dividends on RPS paid and/or provided	28,285	26,214	-	-
Interest paid or payable to unrelated persons	36,446	34,724	51,018	43,598
Amortisation of borrowing costs	2,034	1,450	-	-
Finance costs capitalised into carrying amounts of non-current assets	-	(3,765)	-	(3,765)
Total finance costs expensed	66,765	58,623	79,303	66,047
Other operating expense items:				
Net bad debts written off	14	126	14	126
Net change to provision of doubtful debts	2	2	1	-
Provision for employee benefits	1,039	715	-	-
Operating lease - minimum lease payments	743	587	719	563
	1,798	1,430	734	689

2nd best international airport 5-15 million passengers

Note 8. Income tax expense

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent entity 2007 $'000	Parent entity 2006 $'000
(a) Income tax (benefit)/expense				
Current tax	4,557	-	(1,444)	(3,341)
Deferred tax	236	(897)	(293)	(2,749)
Under / (over) provided in prior years	(410)	-	(410)	-
Income tax (benefit)/expense attributable to profit from continuing operations	4,383	(897)	(2,147)	(6,090)
Deferred income tax expense/(revenue) included in income tax expense comprises:				
Decrease/(increase) in deferred tax assets	191	(3,250)	332	(3,177)
(Decrease)/increase in deferred tax liabilities	45	2,353	(625)	428
	236	(897)	(293)	(2,749)
(b) Numerical reconciliation of income tax expense/(benefit) to prima facie tax payable				
Loss from continuing operations before income tax expense/(benefit)	4,840	(12,204)	(16,748)	(29,481)
Tax at the Australian tax rate of 30% (2006 - 30%)	1,452	(3,661)	(5,024)	(8,844)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:				
Non-deductible interest expense	3,726	2,658	3,726	2,658
Under / (over) provided in prior years	(410)	-	(410)	-
Finalisation of tax asset register	(385)	106	(439)	96
	4,383	(897)	(2,147)	(6,090)
(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 24)	(4,360)	1,374	(2,441)	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.

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 instalments.
The funding amounts are recognised as current intercompany receivables or payables (see note 35(d)).

Note 9. Current assets - Cash and cash equivalents

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent entity 2007 $'000	Parent entity 2006 $'000
Cash at bank and on hand	25,024	17,695	25,024	17,695
Distribution account	1,426	6	-	-
Cash reserves at bank[1]	9,828	35,700	-	-
	36,278	53,401	25,024	17,695

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

Note 10. Current assets - Receivables

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent entity 2007 $'000	Parent entity 2006 $'000
Trade debtors	8,444	6,059	8,444	6,059
Less: Provision for doubtful debts	(4)	(2)	(4)	(2)
	8,440	6,057	8,440	6,057

Note 11. Current assets - Other

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent entity 2007 $'000	Parent entity 2006 $'000
Loans to tenants	7	6	7	6
Prepayments	1,638	1,188	1,580	1,021
Accrued revenue	2,754	7,617	2,705	7,568
	4,399	8,811	4,292	8,595

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

	Consolidated		Parent entity	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Leasehold buildings and improvements				
Leasehold buildings				
- At cost	147,722	1,802	147,722	1,698
Less: Accumulated depreciation	(7,451)	(598)	(7,451)	(494)
	140,271	1,204	140,271	1,204
Leasehold improvements				
- At cost	124,116	75,801	124,116	71,949
Less: Accumulated depreciation	(25,307)	(19,378)	(25,307)	(15,526)
	98,809	56,423	98,809	56,423
Total leasehold buildings and improvements	**239,080**	**57,627**	**239,080**	**57,627**
Plant and equipment				
Plant & equipment				
- At cost	66,303	7,618	66,303	7,225
Less: Accumulated depreciation	(11,396)	(4,844)	(11,396)	(4,451)
	54,907	2,774	54,907	2,774
Plant & equipment under lease at capitalised cost	3,471	2,726	3,471	2,726
Less: Accumulated depreciation	(847)	(331)	(847)	(331)
	2,624	2,395	2,624	2,395
Computers, office equipment, furniture & fittings				
- At cost	17,712	3,227	17,712	3,131
Less: Accumulated depreciation	(6,309)	(2,426)	(6,309)	(2,330)
	11,403	801	11,403	801
Total plant and equipment	**68,934**	**5,970**	**68,934**	**5,970**
Capital works[1]				
Capital works in progress				
- At cost	2,133	1,082	2,133	1,082
- New Terminal at cost	-	260,687	-	260,687
Less accrued depreciation on New Terminal	-	(7,787)	-	(7,787)
Total capital works	**2,133**	**253,982**	**2,133**	**253,982**
Total non-current assets - property, plant and equipment	**310,147**	**317,579**	**310,147**	**317,579**

[1]Included in capital works in progress for 2006 is an amount $260,686,644 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 was accrued and offset against capital works pending transfer into the asset registers of the Group in 2007.

	Leasehold Buildings and Improvements	Plant and Equipment	Capital Work in Progress	Total
	$'000	$'000	$'000	$'000
2007				
Consolidated				
Carrying amount at 1 July 2006	57,627	5,970	253,982	317,579
Additions	1,295	1,409	6,218	8,922
Disposals	(17)	(56)	-	(73)
Impairment	(219)	(56)	-	(275)
Transfers between categories	189,501	68,566	(258,067)	-
Depreciation/amortisation expense (note 7)	(9,107)	(6,899)	-	(16,006)
Carrying amount at 30 June 2007	239,080	68,934	2,133	310,147
Parent entity				
Carrying amount at 1 July 2006	57,627	5,970	253,982	317,579
Additions	1,073	1,352	6,497	8,922
Disposals	(17)	(56)	-	(73)
Transfers between categories	189,501	68,566	(258,067)	-
Transfers to subsidiary	-	-	(279)	(279)
Depreciation/amortisation expense (note 7)	(9,104)	(6,898)	-	(16,002)
Carrying amount at 30 June 2007	239,080	68,934	2,133	310,147
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)
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

Note 13. Prepaid operating lease

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent entity 2007 $'000	Parent entity 2006 $'000
- At cost	135,179	135,179	135,179	135,179
Less: Accumulated depreciation	(12,415)	(11,037)	(12,415)	(11,037)
	122,764	124,142	122,764	124,142

(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.*

(b) Non-current assets pledged as security

Refer to note 23 for information on non-current assets pledged as security by the parent entity or its controlled entities.

Note 14. Non-Current assets - Investment Property

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent entity 2007 $'000	Parent entity 2006 $'000
At Fair value				
Opening balance 1 July	180,760	169,681	158,215	148,526
Capitalised subsequent expenditure	2,931	13,357	2,886	12,738
Net gain (loss) from fair value adjustment	7,803	(2,278)	5,334	(3,049)
Closing balance 30 June	191,494	180,760	166,435	158,215

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

	Consolidated 2007	Consolidated 2006	Parent entity 2007	Parent entity 2006
Rental income	18,562	22,935	14,738	19,351
Direct operating expenses from property that generated rental income	(3,602)	(3,691)	(3,819)	(3,841)
	14,960	19,244	10,919	15,510

(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.

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 23 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 2007 $'000	Consolidated 2006 $'000	Parent entity 2007 $'000	Parent entity 2006 $'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	11,219	11,731	9,330	9,807
Later than one year but not later than five years	32,001	34,997	26,405	27,179
Later than five years	130,752	129,059	116,277	113,971
	173,972	175,787	152,012	150,957

Note 15. Non-current assets - Deferred tax assets

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent entity 2007 $'000	Parent entity 2006 $'000
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Property, plant and equipment	1,754	1,709	-	-
Deferred expenses	-	60	-	34
Lease liabilities	873	737	872	737
Other	1,677	1,084	1,674	1,084
Provisions	491	373	1	1
Tax losses	-	1,023	-	1,023
	4,795	4,986	2,547	2,879
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 24)	(4,795)	(6,360)	(2,547)	(4,253)
Net deferred tax assets	-	-	-	-
Movements:				
Opening balance at 1 July	6,360	1,736	4,253	1,396
Credit / (charged) to the income statement (Note 8)	(191)	3,250	(332)	1,483
Credit / (charged to equity	(1,374)	1,374	(1,374)	1,374
Closing balance 30 June	4,795	6,360	2,547	4,253
Deferred tax assets to be recovered after more than 12 months	2,207	2,229	1,901	1,856
Deferred tax assets to be recovered within 12 months	2,588	4,131	646	2,397
	4,795	6,360	2,547	4,253

Note 16. Non-current assets - Intangible assets

Consolidated	Property Leases $'000	Goodwill $'000	Total $'000
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 1 July 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
Year ended 30 June 2007			
Opening net book amount	5,029	179,410	184,439
Additions	-	-	-
Amortisation charge	(156)	-	(156)
Closing net book amount	4,873	179,410	184,283
At 30 June 2007			
Cost	20,853	179,410	200,263
Accumulated amortisation and impairment	(15,980)	-	(15,980)
Net book amount	4,873	179,410	184,283

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

Parent entity	Property Leases $'000	Goodwill $'000	Total $'000
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 1 July 2006			
Cost	14,434	179,410	193,844
Accumulated amortisation and impairment	(14,434)	-	(14,434)
Net book amount	-	179,410	179,410
Year ended 30 June 2007			
Opening net book amount	-	179,410	179,410
Additions	-	-	-
Amortisation charge	-	-	-
Closing net book amount	-	179,410	179,410
At 30 June 2007			
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 pre-tax nominal discount rate of 12%.

(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 model.

(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 2007 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	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Loans to tenants	431	438	431	438
Receivable from related entities	-	-	15,532	11,689
	431	438	15,963	12,127

Note 18. Derivative financial Instruments

	Consolidated		Parent entity	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Current assets				
Interest rate swap contracts - cash flow hedges	-	-	-	-
Total current derivative financial instrument assets	-	-	-	-
Non-current assets				
Interest rate swap contracts - cash flow hedges	9,977	-	3,581	-
Total non-current derivative financial instrument assets	9,977	-	3,581	-
Current liabilities				
Interest rate swap contracts - cash flow hedges	24	1,712	24	1,712
Total current derivative financial instrument liabilities	24	1,712	24	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

Note 18. Derivative financial instruments (continued)

(a) 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 91.6% (2006 - 75%) of the loan principal outstanding. The average fixed interest rate is 6.37% (2006 - 6.59%) and the variable rates are based on the 90-day BBSY (bid) bank bill rate or 90day BBSW bank bill rate.

At 30 June 2007, the notional principal amounts and periods of expiry of the interest rate swap contracts are as follows:

	2007 $'000	2006 $'000
Less than 1 year	213,000	-
1 - 2 years	213,000	213,000
2 - 3 years	-	213,000
3 - 4 years	388,000	-
4 - 5 years	-	328,000
5-10 years	390,000	
	1,204,000	754,000

(b) Instruments used by the Group

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 2007 no amounts were recorded in profit and loss in respect of ineffective hedges.

At balance date for the Group these contracts were assets with fair value of $9,953,000 (2006 - liabilities with fair value of $4,580,000) and for the parent entity these contracts were assets with fair value of $3,557,000 (2006 - liabilities with a fair value of $4,580,000). In the year ended 30 June 2007 for the Group there was a profit from the increase in fair value of $ 10,173,000 (2006 - $9,287,000) and for the parent entity a profit from the increase in fair value of $5,696,000 (2006 - $9,287,000).

(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.

(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 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 medium term note floating rate borrowings into fixed rates in accordance with the consolidated entity's interest hedge policy. The notional amount varies over the term of the swap as follows:

- the swap commenced on 20 December 2006 with a notional amount of $163 million that matures on 19 December 2007;
- continues from the 20 December 2007 with a notional amount of $213 million that matures on 21 December 2008; and
- continues from the 22 December 2008 with a notional amount of $148 million that matures on 20 December 2010 commensurate with the maturity of underlying debt facilities. 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.

(iii) A $200 million interest rate swap that swaps a portion of the consolidated entity's medium term note floating rate borrowings into fixed rates in accordance with the consolidated entity's interest hedge policy. The swap commences on 15 December 2010. The swap matures on 15 December 2015 commensurate with the maturity of underlying debt facilities. The contract involves quarterly payments and receipts of the net amount of interest. The weighted average fixed rate on the swap is 6.2875% and the floating rates are at the prevailing 90 day BBSW market rates.

(iv) A $25 million interest rate swap that swaps a portion of the consolidated entity's medium term note floating rate borrowings into fixed rates in accordance with the consolidated entity's interest hedge policy. The swap commences on 15 December 2010. The swap matures on 15 December 2015 commensurate with the maturity of underlying debt facilities. The contract involves quarterly payments and receipts of the net amount of interest. The weighted average fixed rate on the swap is 6.29% and the floating rates are at the prevailing 90 day BBSW market rates.

(v) A $60 million interest rate swap that swaps a portion of the consolidated entity's medium term note floating rate borrowings into fixed rates in accordance with the consolidated entity's interest hedge policy. The swap commences on 22 March 2009. The swap matures on 15 December 2010 commensurate with the maturity of underlying debt facilities. The contract involves quarterly payments and receipts of the net amount of interest. The weighted average fixed rate on the swap is 6.405% and the floating rates are at the prevailing 90 day BBSW market rates.

(vi) A $165 million interest rate swap that swaps a portion of the consolidated entity's medium term note floating rate borrowings into fixed rates in accordance with the consolidated entity's interest hedge policy. The swap commences on 20 December 2010. The swap matures on 20 September 2016 commensurate with the maturity of underlying debt facilities. The contract involves quarterly payments and receipts of the net amount of interest. The weighted average fixed rate on the swap is 6.29% and the floating rates are at the prevailing 90 day BBSW market rates.

Note 19. Current liabilities - Trade and other payables

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent entity 2007 $'000	Parent entity 2006 $'000
Trade payables	2,774	2,622	2,774	2,622
Other payables	14,380	14,413	11,542	13,636
	17,154	17,035	14,316	16,258

Note 20. Current liabilities - Borrowings

	Note	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent entity 2007 $'000	Parent entity 2006 $'000
Secured					
Lease liability		504	221	504	221
		504	221	504	221

Details of the security relating to the lease liability are set out in note 23.

Note 21. Current liabilities - Provisions

	Note	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent entity 2007 $'000	Parent entity 2006 $'000
Annual leave		649	650	-	-
Long service leave		488	405	-	-
		1,137	1,055	-	-

Note 22. Current liabilities - Other

	Note	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent entity 2007 $'000	Parent entity 2006 $'000
Unsecured		324	314	324	314
Retentions and deposits		38	16	38	-
Deferred Revenue		362	330	362	314

Note 23. Non-current liabilities - Borrowings

	Note	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent entity 2007 $'000	Parent entity 2006 $'000
Secured					
Medium term notes 2010	(a)(i)	259,242	257,867	-	-
Medium term notes 2016	(a)(ii)	258,675	-	-	-
Construction facility	(a)(iii)	-	256,873	-	-
Working Capital Facility BankSA	(a)(iv)	-	2,000	-	-
Lease liability (note 23)	(a)(v)	2,406	2,164	2,406	2,164
Land Transport Notes	(a)(vi)	226,729	226,729	226,729	226,729
Macquarie Bank Ltd Loan (note 1(y))	(a)(vi)	(226,729)	(226,729)	(228,820)	(228,820)
Total secured non-current borrowings		520,323	518,904	315	73
Unsecured					
Airport loan notes	(b)	-	-	188,563	188,563
Redeemable preference shares	(c)	188,076	188,006	-	-
Loans from related parties	35	-	-	539,665	494,351
Total unsecured non-current borrowings		188,076	188,006	728,228	682,914
Total non-current borrowings		708,399	706,910	728,543	682,987
(a) The total secured liabilities (current and non-current) are as follows:					
Medium term notes 2010	(a)(i)	259,242	257,867	-	-
Medium term notes 2016	(a)(ii)	258,675	-	-	-
Construction facility	(a)(iii)	-	256,873	-	-
Working Capital Facility BankSA	(a)(iv)	-	2,000	-	-
Lease liability	(a)(v)	2,910	2,385	2,910	2,385
Land Transport Notes	(a)(vi)	226,729	226,729	226,729	226,729
Macquarie Bank Ltd Loan (note 1(y))	(a)(vi)	(226,729)	(226,729)	(228,820)	(228,820)
Total secured liabilities		520,827	519,125	819	294

Note 23. Non-current liabilities - Borrowings (continued)

(i) The Medium Term Notes 2010 (MTN's 2010) 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 2010 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 18. The MTN's 2010 are secured by a charge over the entire assets and undertakings of the economic entity.

(ii) The Medium Term Notes 2016 (MTN's 2016) 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 2016 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 22 August 2006 issue ($265 million) were used to refinance existing senior bank debt obtained to finance the construction of the New Terminal. The notes consist of $165 million where interest is payable quarterly based on the 90 day BBSW bank bill rate plus a margin of 0.25% and $100 million where interest is payable half-yearly with a fixed rate of 6.25%. Interest rate swap facilities have been used to effectively fix the interest rate for the variable portion as set out in note 18. The MTN's 2016 are secured by a charge over the entire assets and undertakings of the economic entity.

(iii) The construction facility was a syndicated bank loan for a term of originally 5 years expiring in November 2008 but refinanced in August 2006 as set out above. The facility was secured by a charge over the entire assets and undertakings of the economic entity.

(iv) The working capital facility is secured by a charge over the entire assets and undertakings of the economic entity and is current until November 2008.

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

(vi) 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 2007 (2006 - $228.82 million). $2.091 million in repayments has been received as at 30 June 2007. 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.

(b) 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 2006.

(c) 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.

(d) Standby arrangements and credit facilities

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

	Consolidated		Parent entity	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Bank loan facilities				
Working capital facility provided by BankSA	20,000	20,000	-	-
Used at balance date	-	(2,000)	-	-
Unused at balance date	20,000	18,000	-	-
Construction facility provided by a syndicate headed by Australia and New Zealand Banking Group Ltd	-	260,000	-	-
Used at balance date	-	(256,873)	-	-
Unused at balance date	-	3,127	-	-
Total facilities	20,000	280,000	-	-
Used at balance date	-	(258,873)	-	-
Unused at balance date	20,000	21,127	-	-

(e) 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
2007								
Medium term notes 2010	264,000	-	-	-	-	-	-	264,000
Medium term notes 2016	165,000	-	-	-	-	-	100,000	265,000
Working capital facility[i]	-	-	-	-	-	-	-	-
Construction facility[ii]	-	-	-	-	-	-	-	-
Redeemable preference shares[iii]	-	-	-	-	-	-	188,563	188,563
Land Transport Notes	-	-	-	226,729	-	-	-	226,729
Lease liabilities	-	2	42	-	2,192	674	-	2,910
Interest rate swaps[iv]	(1,204,000)	213,000	213,000	-	388,000	-	390,000	-
	(775,000)	213,002	213,042	226,729	390,192	674	678,563	947,202
Weighted average interest rate	6.4%	6.5%	6.4%	5.5%	6.6%	8.4%	8.7%	

2nd best international airport
5-15 million passengers

Note 23. Non-current liabilities - Borrowings (continued)

(e) Interest rate exposures (continued)

	Floating interest rate	Fixed 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 2010	264,000	-	-	-	-	-	-	264,000
Working capital facility(i)	2,000	-	-	-	-	-	-	2,000
Construction facility(ii)	256,873	-	-	-	-	-	-	256,873
Redeemable preference shares(iii)	-	-	-	-	-	-	188,006	188,006
Land Transport Notes	-	-	-	-	226,729	-	-	226,729
Lease liabilities	-	7	22	53	261	2,042	-	2,385
Interest rate swaps(iv)	(754,000)	-	213,000	213,000	-	388,000	-	-
	(231,127)	7	213,022	213,053	226,990	390,042	188,006	939,993
Weighted average interest rate	6.3%	7.8%	6.5%	6.4%	5.5%	6.6%	15.0%	

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 interest on the Airport Loan Notes to New Terminal Construction Company Pty Ltd from Adelaide Airport Ltd.

(iv) Notional principal amounts.

(f) Fair value

The carrying amounts and fair values of borrowings at balance date are:

	2007 Carrying amount	2007 Fair value	2006 Carrying amount	2006 Fair value
	$'000	$'000	$'000	$'000
On-balance sheet				
Non-traded financial liabilities				
Medium term notes 2010	259,242	264,000	257,867	264,000
Medium term notes 2016 fixed	97,613	97,613	-	-
Medium term notes 2016 variable	161,062	165,000	-	-
Working capital facility	-	-	2,000	2,000
Construction facility	-	-	256,873	256,873
Redeemable preference shares	188,076	188,563	188,006	188,563
Land Transport Notes	226,729	226,729	226,729	226,729
Lease liabilities	2,910	2,910	2,385	2,385
	935,632	944,815	933,860	940,550

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 24. Non-current liabilities - Deferred tax liabilities

	Consolidated 2007	Consolidated 2006	Parent entity 2007	Parent entity 2006
	$'000	$'000	$'000	$'000
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Accrued revenue and interest receivable	465	1,897	450	1,847
Investment property	40,209	37,866	34,841	33,240
Property plant and equipment	1,671	1,854	1,671	1,854
Intangibles	1,461	1,508	-	-
Prepaid operating lease	36,829	37,243	36,829	37,243
Borrowing costs	710	850	645	808
Other	2	86	1	70
	81,347	81,304	74,437	75,062
Amounts recognised directly in equity				
Cash flow hedges	2,986	-	1,067	-
Total deferred tax liabilities	84,333	81,304	75,504	75,062
Set-off deferred tax liabilities (note 15)	(4,795)	(6,360)	(2,547)	(4,253)
Net deferred tax liabilities	79,538	74,944	72,957	70,809
Movements:				
Opening balance at 1 July	81,304	78,951	75,062	74,633
Credit / (charged) to the income statement (Note 8)	45	2,353	(625)	428
Credited/(charged to equity)	2,986	-	1,067	-
Closing balance 30 June	84,335	81,304	75,504	75,061
Deferred tax liabilities to be recovered within 12 months	467	1,899	450	1,849
Deferred tax liabilities to be recovered after more than 12 months	83,868	79,405	75,054	73,212
	84,335	81,304	75,504	75,061

Note 25. Non-current liabilities - Provisions

	Consolidated 2007	Consolidated 2006	Parent entity 2007	Parent entity 2006
	$'000	$'000	$'000	$'000
Provisions - long service leave	193	187	-	-
Provisions - LTEIP	303	-	-	-
	496	187	-	-

south australian achiever of the year 2006 - phil baker adelaide airport managing director

Note 26. Non-current liabilities - Other

	Consolidated		Parent entity	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Deferred income	3,102	1,097	3,102	1,097
	3,102	1,097	3,102	1,097

Note 27. Contributed equity

	Parent entity		Parent entity	
	2007	2006	2007	2006
	Shares	Shares	$'000	$'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		Parent entity	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
(a) Reserves				
Hedging reserve - cash flow hedges	6,967	(3,206)	2,490	(3,206)
	6,967	(3,206)	2,490	(3,206)
Movements				
Balance 1 July	(3,206)	-	(3,206)	-
Adjustment on adoption of AASB 132 and AASB 139, net of tax (note m)	-	(12,493)	-	(12,493)
Revaluation - gross (note 18)	14,534	13,267	8,138	13,267
Deferred tax (note 15 and 24)	(4,361)	(3,980)	(2,442)	(3,980)
Balance 30 June	6,967	(3,206)	2,490	(3,206)
(b) Retained profits				
Balance 1 July	70,569	81,876	48,855	72,246
Dividends (note 30)	(26,550)	-	(26,550)	-
Profit/(Loss) - current year	457	(11,307)	(14,601)	(23,391)
Balance 30 June	44,476	70,569	7,704	48,855

(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

	Parent entity	
	2007	2006
	$'000	$'000
Ordinary shares	26,550	-
Unfranked dividend	26,550	-

(b) Redeemable preference shares

Dividends on these shares of 15% per annum (2006 - 13.8% per annum) totaling $28,284,434 (2006 - $26,213,885) paid quarterly have been charged to the income statement as interest and finance charges because the shares are classified as liabilities (refer note1(x)).

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

A Mulgrew (appointed 6 September 2006)

J R McDonald

A Mulgrew

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 (resigned 19 June 2007)

(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 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 Young	Chief Financial Officer	Adelaide Airport Management Ltd

Note 30. Key management personnel disclosures (continued)

(c) Key management personnel compensation	Consolidated 2007 $	Consolidated 2006 $	Parent entity 2007 $	Parent entity 2006 $
Short-term employee benefits	2,326,062	1,947,777	2,326,062	1,947,777
Long-term benefits	303,211	-	303,211	-
Superannuation	178,591	152,473	178,591	152,473
	2,807,864	2,100,250	2,807,864	2,100,250

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.

(d) Other transactions with key management personnel

A director, Mr D C Munt, was a partner in the firm of Thomson Playford, Solicitors. Mr Munt ceased his partnership with Thomson Playford on 30 June 2007. 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 2007 $'000	Consolidated 2006 $'000	Parent entity 2007 $'000	Parent entity 2006 $'000
Legal Fees	568	814	500	788

Note 31. Remuneration of auditors

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent entity 2007 $'000	Parent entity 2006 $'000
Remuneration for audit or review of the financial reports of the parent entity or any entity in the consolidated entity:	173,159	164,785	173,159	164,785
Other assurance services:				
Audit of Government Grant claim	4,400	2,400	4,400	2,400
Taxation services:				
Staff training services	-	1,050	-	1,050
	177,559	168,235	177,559	168,235

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

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent entity 2007 $'000	Parent entity 2006 $'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	353	2,008	135	1,987
Later than one year but not later than 5 years	-	-	-	-
Later than 5 years	-	-	-	-
	353	2,008	135	1,987
Investment property				
Within one year	2,195	2,786	2,195	2,786
Later than one year but not later than 5 years	1,766	2,211	1,766	2,211
Later than 5 years	1,528	3,214	1,528	3,214
	5,489	8,211	5,489	8,211
(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	378	314	378	314
Later than one year but not later than 5 years	317	342	317	342
	695	656	695	656
Representing:				
Non-cancellable operating leases	358	365	358	365
Future finance charges on finance leases	337	291	337	291
	695	656	695	656
(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	159	177	159	177
Later than one year but not later than five years	199	188	199	188
Later than five years	-	-	-	-
Commitments not recognised in the financial statements	358	365	358	365

Note 33. Commitments for expenditure (continued)

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent entity 2007 $'000	Parent entity 2006 $'000
(ii) Finance leases				
Commitments in relation to finance leases are payable as follows:				
Within one year	723	543	723	543
Later than one year but not later than five years	2,524	2,133	2,524	2133
Later than five years	-	-	-	-
Minimum lease payments	3,247	2,676	3,247	2,676
Future finance charges	(337)	(291)	(337)	(291)
Recognised as a liability	2,910	2,385	2,910	2,385
Representing lease liabilities:				
Current (note 20)	504	221	504	221
Non-current (note 23)	2,406	2,164	2,406	2,164
	2,910	2,385	2,910	2,385

The weighted average interest rate implicit in the leases is 7.9% (2006 - 7.03%).

Note 34. Employee entitlements

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent entity 2007 $'000	Parent entity 2006 $'000
Employee entitlement liabilities				
Provision for employee entitlements -current (note 21)	1,137	1,055	-	-
Provision for employee entitlements - non-current (note 25)	496	187	-	-
Aggregate employee entitlement liability	1,633	1,242	-	-
Employee numbers				
Average number of employees during the financial year	125	121	-	-

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

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent entity 2007 $'000	Parent entity 2006 $'000
Weighted average rates of increase in annual employee entitlements to settlement of liabilities	6.00%	6.00%	-	-
Weighted average discount rates	6.26%	5.78%	-	-
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 2007 $	Consolidated 2006 $	Parent entity 2007 $	Parent entity 2006 $
Purchases of goods and services				
Purchase of human resources services to related companies	-	-	9,050,495	8,390,779
Purchase of payroll preparation services to related companies	-	-	99,465	61,808
Contract management services	-	-	-	2,205,500
Tax consolidation legislation				
Current tax payable assumed from wholly-owned tax consolidated entities	-	-	6,008,326	5,035,300
Tax losses assumed from wholly-owned tax consolidated entities	-	-	(21,233)	-
Interest paid				
Interest paid to related companies	-	-	65,581,781	57,818,374
Superannuation contributions				
Contributions to superannuation funds on behalf of employees	693,623	603,237	-	-
(e) Outstanding balances arising from sales/purchases of goods and service				
Current receivables (tax funding agreement)	-	-	6,008,826	5,035,300
Current payables (tax funding agreement)	-	-	21,233	-

presidents award
infrastructure development

Note 35. Related parties (continued)

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

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(d).

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 7.35% (2006 - 6.7%).

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		Cost of parent entity's investment	
			2007	2006	2007	2006
			%	%	%	%
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 38.

Note 37. Reconciliation of profit/(loss) from ordinary activities after income tax to net cash inflow from operating activities

	Consolidated		Parent entity	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Profit/(Loss) from ordinary activities after income tax	457	(11,307)	(14,601)	(23,391)
Depreciation and amortisation of property plant and equipment	16,004	13,601	16,012	13,590
Amortisation of intangible assets	169	245	-	76
Amortisation of borrowing costs	2,034	1,451	-	-
Amortisation of prepaid operating lease	1,378	1,365	1,378	1,365
(Profit)/Loss sale of assets	(139)	136	(139)	136
Fair value adjustment to investment property	(7,803)	2,278	(5,334)	3,049
Impairment of assets	275	38	-	-
Capitalised interest on construction borrowings	-	(3,421)	-	(3,421)
Capitalised borrowing costs on refinancing	(6,913)	-	-	-
Movements in current and deferred tax assets and liabilities	4,382	(897)	(2,147)	(6,090)
Decrease (increase) in trade debtors and accrued income	4,340	(17,031)	4,231	(9,899)
Decrease (increase) in prepayments	(517)	(325)	(517)	(325)
Increase (decrease) in trade creditors	1,261	13,887	(783)	25,130
Increase (decrease) in other provisions	393	286	2	2
Net cash inflow from operating activities	15,321	306	(1,898)	222

Parent entity comparatives have been restated from the prior year, see note 6.

Note 38. 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'.

Note 38. Deed of Cross Guarantee (continued)

Set out below is a consolidated income statement and a summary of movements in consolidated retained profits for the year ended 30 June 2007 of the Closed Group consisting of Adelaide Airport Limited, Adelaide Airport Management Limited, Parafield Airport Limited and New Terminal Construction Company Proprietary Limited.

	2007 $'000	2006 $'000
Income Statement		
Revenue from continuing operations	121,092	97,900
Other income	874	589
Increments/(decrements in the fair value of investment properties	7,803	(2,278)
Employee benefits expense	(10,109)	(8,460)
Depreciation and amortisation expenses	(17,540)	(15,211)
Services & utilities	(23,351)	(18,688)
Consultants & advisors	(3,588)	(2,143)
General administration	(5,122)	(4,877)
Leasing & maintenance	(3,460)	(2,014)
Borrowing costs expense	(79,182)	(65,054)
Profit/(Loss) on disposal of property, plant and equipment	139	(136)
Impairment of property, plant and equipment	(275)	(38)
Loss before income tax	**(12,719)**	**(20,410)**
Income tax benefit	885	966
Loss for the year	**(11,834)**	**(19,444)**
Summary of movements in consolidated retained profits		
Retained profits at the beginning of the financial year	58,942	78,386
Loss from ordinary activities after income tax expense	(11,834)	(19,444)
Dividend	(26,550)	-
Retained profits at the end of the financial year	**20,558**	**58,942**

Comparatives have been restated from the prior year, see note 6.

(b) Balance sheet

Set out below is a consolidated balance sheet as at 30 June 2007 of the Closed Group consisting of Adelaide Airport Limited, Adelaide Airport Management Limited, Parafield Airport Limited and New Terminal Construction Company Proprietary Limited.

Note 38. Deed of Cross Guarantee (continued)

	2007 $'000	2006 $'000
Current assets		
Cash assets	25,024	17,695
Receivables	8,440	6,058
Derivative financial instruments	3,581	-
Other	4,341	8,644
Total current assets	41,386	32,397
Non-current assets		
Property, plant and equipment	310,148	317,579
Prepaid operating lease	122,764	124,142
Investment properties	191,493	180,760
Intangible assets	184,283	184,439
Receivables	431	438
Total non-current assets	809,119	807,358
Total assets	**850,505**	**839,755**
Current liabilities		
Payables	14,357	16,335
Interest bearing liabilities	503	221
Derivative financial instruments	24	4,580
Provision for income tax	4,149	-
Provisions	1,440	1,055
Other	362	1,427
Total current liabilities	20,835	23,618
Non-current liabilities		
Interest bearing liabilities	723,820	682,855
Deferred tax liabilities	77,601	74,894
Provisions	194	187
Other	3,102	-
Total non-current liabilities	804,717	757,936
Total liabilities	**825,552**	**781,554**
Net assets	**24,953**	**58,201**
Equity		
Contributed equity	1,905	1,905
Reserves	2,490	(3,206)
Retained profits	20,558	59,502
Total equity	**24,953**	**58,201**

Note 39. Non-cash financing and Investing activities

	Consolidated		Parent entity	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Acquisition of plant and equipment by means of finance leases	764	2,422	764	2,422

Adelaide Airport Limited

Directors' declaration

30 June 2007

The directors declare that the financial statements and notes set out on pages 9 to 51:

(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 2007 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 38 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 38.

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

John Rickus
Director

Phillip Baker
Director

Adelaide 3 October 2007

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 2 8218 7000
Facsimile +61 2 8218 7999

Independent auditor's report to the members of Adelaide Airport Limited

Report on the financial report

We have audited the accompanying financial report of Adelaide Airport Limited (the company), which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both Adelaide Airport Limited and the Adelaide Airport Limited Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

PRICEWATERHOUSECOOPERS

Independent auditor's report to the members of Adelaide Airport Limited (continued)

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

For further explanation of an audit, visit our website http://www.pwc.com/au/financialstatementaudit.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001.*

Auditor's opinion

In our opinion:

(a) the financial report of Adelaide Airport Limited is in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2007 and of their performance for the year ended on that date; and
   (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the consolidated financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

PricewaterhouseCoopers

PricewaterhouseCoopers

AG Forman
Partner

Adelaide
3 October 2007

2ND BEST INTERNATIONAL AIRPORT 5-15 MILLION PASSENGERS

Airports Council International - 2006 Airport Service Quality Awards

AUSTRALIAN CAPITAL CITY AIRPORT OF THE YEAR

Australian Airports Association 2006 Award for Aviation Excellence

JONES LANG LASALLE AWARD FOR EMERGING ASSETS

Property Council of Australia 2007 Innovation and Excellence Awards

PRESIDENTS AWARD - INFRASTRUCTURE DEVELOPMENT

Urban Development Institute of Australia, SA Division Natural Gas and Envestra Award for Excellence 2006

ARCHITECTURAL STEEL DESIGN AWARD

ASI Steel Awards – SA 2006

SOUTH AUSTRALIAN ACHIEVEMENT OF THE YEAR-T1

The Chartered Institute of Logistics and Transport SA

SOUTH AUSTRALIAN ACHIEVER OF THE YEAR 2006
PHIL BAKER - ADELAIDE AIRPORT LIMITED, MANAGING DIRECTOR

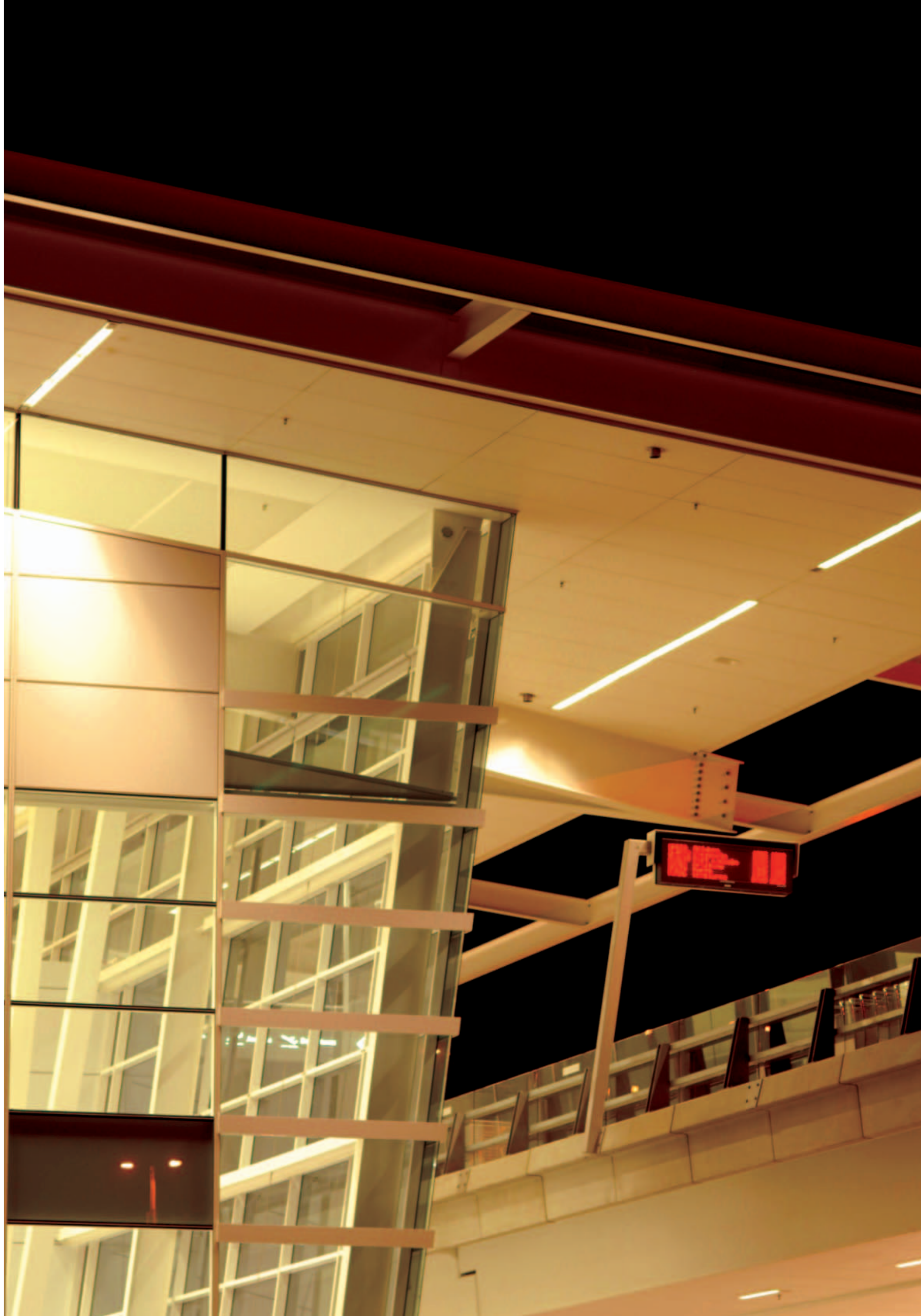
The Chartered Institute of Logistics and Transport SA

TAKE OFF - A NEW ERA IN AIRPORT RETAILING

Retail Property Awards (Property Council – SA) Excellence in Marketing Award for “Working with the community” for properties up to 10,000 square metres in retail lettable area

FROM TIN SHED TO GLASS SHOWCASE A HISTORY OF ADELAIDE AIRPORT

23rd National Print Awards Book, Printing 4 colours or more – Silver Medal



Adelaide Airport