## DELIVERING THE PROMISE, BUILDING THE FUTURE

The 2004 Annual Report of Airports Company South Africa (ACSA) focused on "The ACSA Dynamic" – the role played by ACSA as a strategic provider of logistic platforms. In 2005, the ACSA annual report looked at how ACSA was mapping its future.

Now, in 2006, the report looks at how effectively ACSA is following the map it has created for its future. It examines how the Company is adapting to changing circumstances and approaching events such as the 2010 Soccer World Cup and the imminent arrival of the giant A380 aircraft.

It looks at the questions of whether and how ACSA is delivering on the undertakings made in previous years – undertakings such as high standards of accountability and responsibility in delivering on its obligations to stakeholders. Looking to the future, it examines whether ACSA is on track with its preparations for the 2010 Soccer World Cup and beyond.

Finally, it seeks to answer the important fundamental question of the extent to which ACSA, as a state-owned enterprise, is assisting government to discharge its responsibility of growing the national economy of our developing nation.

# R5,2 BILLION CAPITAL EXPENDITURE PROGRAMME

Over the financial years 2005 to 2009 Airports Company South Africa (ACSA) will be investing R5,2 billion in new and upgraded facilities – principally, but not exclusively, at its three international airports in Johannesburg, Cape Town and Durban. These artist's impressions of the various projects show how determined ACSA is to give South African and foreign travellers, the expected 350 000 additional foreign visitors in 2010 and the huge number of visitors the country will receive in succeeding years, the world-class service they have come to expect.

In the light of the forthcoming introduction of new generation aircraft such as the Airbus A380, ACSA has accelerated the schedules of all projects geared to the A380. These aircraft will carry almost double the passengers and freight load of the current largest aircraft. Construction has already begun at Johannesburg International Airport (JIA) on the Northern International Pier, which will be able to dock four A380s simultaneously and another four in remote positions. This R512 million development will enable JIA to be one of the first airports in the world to handle and accommodate these aircraft.

## Developments at Johannesburg International Airport (JIA)

### INTERNATIONAL TRANSIT LOUNGE

**PROJECTED COMPLETION DATE:** JULY 2009

4 500m$^2$ new duty-free retail space will be added to the existing shopping area, providing 11 000m$^2$ of duty-free shopping as a seamless experience for departing passengers.

### NEW MULTI-STOREY PARKADE

**PROJECTED COMPLETION DATE:** PHASE 1 – JULY 2007

The scope of works includes the following:

Construction of a multi-storey parkade consisting of two basement levels, ground floor and four floors. The facility will provide 5 247 parking bays.

Due to an increase in parking demand a phased handover during the construction period will be required. The first phase of at least 1 000 parking bays will be made available no later than the end of July 2007. The entire parkade will be fully operational by end January 2009.

### NEW NORTHERN PIER DEVELOPMENT

**PROJECTED COMPLETION DATE:** OCTOBER 2007

This will facilitate the handling of the new A380 aircraft and the easy movement of large numbers of passengers through air bridges. This will result in improved passenger service and enable airlines to improve turnaround times.

### PROJECTS PLANNED AND UNDERWAY

- Central terminal building
- New multi-storey parkade
- International terminal extension
- New Northern Pier
- Echo Apron
- Roadway redesign
- Trade Bureau

### WORK COMPLETED

- Domestic terminal
- Parkade
- Roadway system
- Charlie Apron
- Modification to runways and taxiways to meet A380 requirements
- Upgrading of weather equipment
- Upgrading of instrument landing systems

## Developments at Cape Town International Airport (CIA)

### NEW APRON

**PROJECTED COMPLETION DATE:** JULY 2009

There will be additional parking capacity not only on the landside, but also on airside. New aircraft parking stands and air bridges will be built, specifically to cater for the new A380.

### UPGRADE OF DOMESTIC TERMINAL BUILDING


**PROJECTED COMPLETION DATE:** JULY 2009

Work has started on the new R900 million central terminal building, to be known as Terminal 2010.

**PROJECTS PLANNED AND UNDERWAY**

- Central Processing Terminal
- New apron
- Car park extension
- New runway
- Upgrade of domestic terminal

## Developments at Durban International Airport (DIA) and domestic airports

### UPGRADE OF TERMINAL BUILDING (DIA)

**PROJECTED COMPLETION DATE:** JULY 2009

At least 14 more check-in counters will be installed while four Common Use Self Service (CUSS) machines will be introduced.

**WORK COMPLETED (DIA)**

- Upgrade of runways and taxiways

**WORK COMPLETED (PORT ELIZABETH NATIONAL AIRPORT)**

- Terminal upgrades

### UPGRADE OF MULTI-STOREY CAR PARK (DIA)

**PROJECTED COMPLETION DATE:** JULY 2009

ACSA has embarked on the development of a 1 500 bay multi-storey parkade in order to meet increased demands. The MSP has been designed as a two storey building with a ground floor that is convertible to retail/office accommodation. The design allows for an additional two floors to be incorporated in future should this be required.

**PROJECTS PLANNED AND UNDERWAY (DIA)**

- New multi-storey parkade

**PROJECTS PLANNED AND UNDERWAY (PORT ELIZABETH/EAST LONDON/GEORGE/BLOEMFONTEIN/KIMBERLEY/UPINGTON NATIONAL AIRPORTS)**

- Terminal upgrades
- Apron upgrades
- Car parks

# VISION, MISSION, VALUES, HIGHLIGHTS AND GROUP STRUCTURE

## VISION

**To be a world leading airport business**

Airports Company South Africa's (ACSA's) vision is to strive for excellence in all its business undertakings and to continue to grow and diversify in an environment of rapidly changing markets, macroeconomic challenges and a volatile airline/aviation industry.

## MISSION

**To manage world-class airports for the benefit of all stakeholders**

ACSA's business is integrative by nature and requires the Company to interact with a diverse set of stakeholders on whose performance it relies. Thus, growing and managing world-class airports necessarily means that all stakeholders should benefit, either directly or indirectly.

In this closely integrated, interdependent environment of developing and managing airports, ACSA endeavours to be recognised as a reliable and effective partner in the business.

In essence, the effectiveness of ACSA and its multiple associates in the aviation industry depends on their meeting the particular needs of the most important person in the entire tourism undertaking – the traveller.

To this end ACSA's strategic imperative and overarching objective is to ensure that every passenger who uses its own facilities, as well as the services of its associates and concessionaires, comes away with a lasting sense of satisfaction at having experienced a safe, secure and comfortable travel experience characterised by attentive personal service and a top-rate airport environment.

In the knowledge that the desired quality of the travel experience depends on the integrated inputs of numbers of diverse stakeholders as described, ACSA is taking a lead in efforts to persuade them to agree to introduce systems and controls that will ensure the desired outcomes.

## VALUES

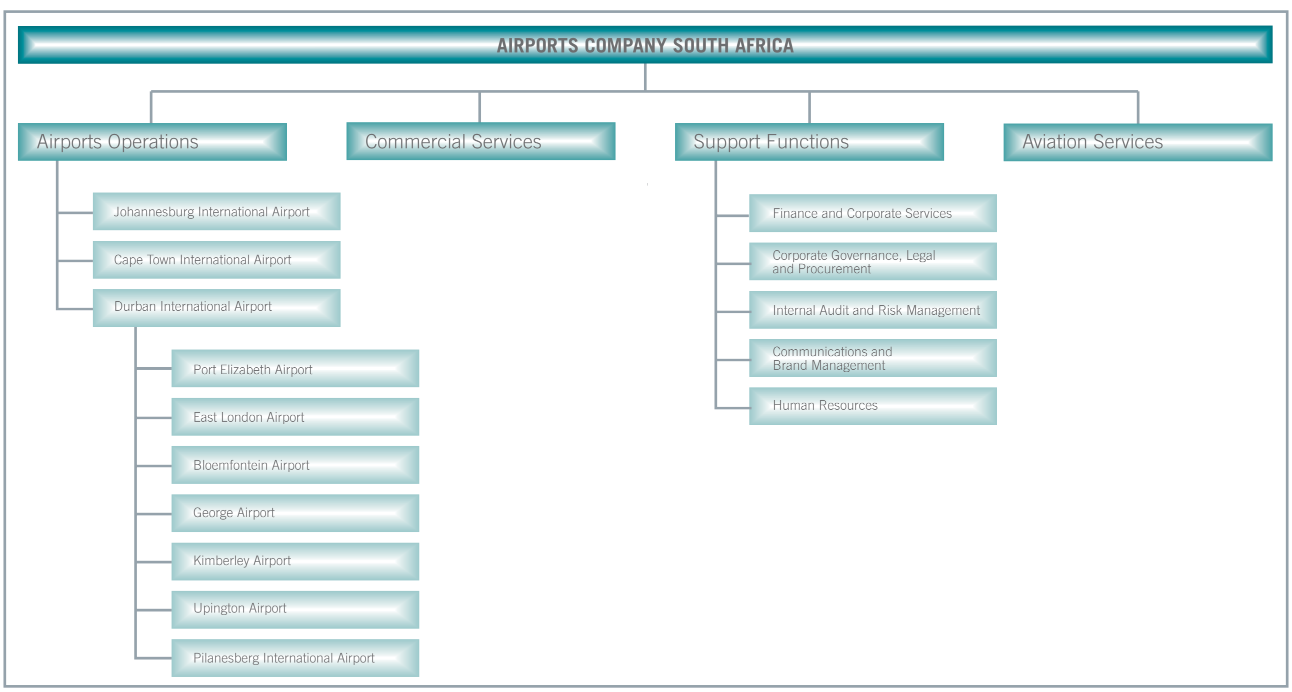
ACSA has refined its values to match its strategy, recognising that the combination of a deeply rooted culture, well matched with strategy, is a powerful lever for successful performance. The acronym for these values is PRIDE.

Passion – Living our values and pursuing our goals
Results – Being customer- and partner-focused
Integrity – Enabling trust and respect in all our actions
Diversity – Promoting our African heritage in a global context
Excellence – Continuously improving and innovating our business

## HIGHLIGHTS

- Passenger traffic revenue increased by 12 percent
- 12 percent increase in revenue to R2,2 billion
- 30 percent growth in operating profit to R977 million
- 30 percent increase in headline earnings
- 11 percent growth in departing passenger volumes to 14,9 million

## GROUP STRUCTURE



If there is one aspect of the achievements of Airports Company South Africa (ACSA) during the 2005/06 review period that stands head and shoulders above all else, it's the formulation and enunciation of a coherent corporate strategy. The strategy is to direct ACSA towards an efficient and customer focused business.This is a strategy that enables the organisation's mission and gives substance to its vision.

It is a strategy that will ensure ACSA lives the ACSA PRIDE values.

It is a strategy that will ensure it delivers on its promises and builds the future.

The ACSA strategy recognises that every element of its operations, and every person, organisation and institution that touches ACSA and is touched by ACSA, plays a part in its success or failure.

By drawing on the Balanced Scorecard methodology, and using this as a strategic implementation tool, ACSA has a strategy that is dynamic, adaptable, integrated and – most importantly – implementable. It not only makes provision for feedback and ongoing assessment, it includes mechanisms that will ensure such feedback translates into action.

The new strategy consists of three major features. It starts with a foundation that supports three separate but inter-related pillars or themes. These, in turn, support and feed in to the objective: to increase shareholder value.

**FOUNDATION**

Four strategic enablers have been identified, every one of which is critical to the success of the strategy:

1. Technology – procuring, implementing and maintaining information and communication technology that supports ACSA's positioning as a world-class airports operator now, and into the future;
2. People – appointing, developing and retaining the right people with the right skills in the right jobs, now and into the future;
3. Communication – identifying, implementing and keeping open lines of effective communication (internally and externally) from both an operational and a people perspective; and
4. Culture – providing the tools, support and training ACSA people need to live the PRIDE culture.

**THREE PILLARS**

1. Growth and Development – this challenges the entrepreneurial aspect of ACSA. Although its core business is set to grow organically, opportunities that supplement and secure its income streams and that translate into sustainable competitive advantage must be identified.
2. Stakeholder Management – ACSA operates in an industry that demands integration of all its stakeholders in every area of its business, from airline operators to baggage handlers, shareholders to security experts, passengers to environmentalists and the general public. All need to be managed, communicated and, where appropriate, partnered. The key to success, however, is that stakeholder management must be integrated.
3. Business Excellence – this demands that ACSA delivers its core services more cost-effectively and more efficiently. It means that it must:
   - Comply with its licence and practise good corporate citizenship by advancing Broad Based Black Economic Empowerment (BBBEE) and driving participation in Corporate Social Investment (CSI) programmes;
   - Plan and design infrastructure for future needs;
   - Live up to regulator/permission commitments by spending capital sums approved by the Regulator in the Permission Document and maintaining appropriate infrastructure to deliver optimal customer service;
   - Engage in real time end-to-end monitoring and management, facilitating the integration of stakeholder processes to achieve a seamless end-to-end passenger experience; and
   - Deliver process excellence and continuous improvement by constantly re-engineering processes to drive down costs while maintaining and improving service standards.

**INCREASING SHAREHOLDER VALUE**

ACSA's objective to increase shareholder value focuses it on the need to deliver sustainable returns in line with expectations, to balance investment in infrastructure, and to contribute to the development of South Africa as a strong regional and international economy. It requires us to:

- Grow revenue from new business;
- Grow revenue from existing business;
- Optimise gearing levels through an efficient capital structure to finance investments in infrastructure; and
- Generate cost savings by enhancing efficiencies and productivity.

Finally, ACSA places great emphasis on balancing risk and reward and acknowledges that effective risk management is critical to success. As a result, risk management is interwoven with every aspect of strategy.

# COMPANY PROFILE

Airports Company South Africa (ACSA) is the largest and busiest airport authority in Africa, handling nearly 236 000 aircraft landings and nearly 14,9 million departing passengers annually.

The Company was created in 1993 by Act of Parliament and effectively commenced operations in 1995. Today, ACSA owns and operates South Africa's three major international airports at Johannesburg, Cape Town and Durban. Together these handled nearly 14,9 million departing passengers during the review period. ACSA is also responsible for the country's six largest domestic airports in Bloemfontein, East London, George, Kimberley, Port Elizabeth and Upington.

In addition, ACSA manages the Pilanesberg International Airport in terms of a 35-year concession signed in 1998.

Since it commenced operations, ACSA has paid R1,33 billion in dividends to its shareholders and R1,97 billion in taxes to the Fiscus. While the main source of revenue continues to be aeronautical, non-aeronautical revenue from commercial activities has grown significantly to 45 percent of R2,2 billion of total revenue.

ACSA was one of the first state-owned enterprises to be partially privatised, and in March 1998, Aeroporti di Roma (ADR) paid R819 million for 20 percent of the Company's shares. During the review period, ADR disposed of its shareholding to the Public Investment Corporation (PIC) for R1,67 billion.

ACSA's vision is to be a world leading airport business with a focus on the end-to-end passenger experience in terms of customer service, safety and security. Its background positions it well to exploit airport concession opportunities and airport management services outside South Africa.

As a member of the GVK–SA Consortium, which won the Mumbai International Airport concession this year, ACSA is set to do just that. With its 10 percent shareholding in Mumbai International Airport Private Limited (MIAL), ACSA's role will be that of airport operator – rehabilitating, developing, operating and managing the airport on behalf of the concessionaire.

ACSA has also invested enormous time and effort to secure opportunities to partner and invest in airport development in other African countries. The Company has been short-listed to bid for the 25-year concession to design, finance, build and operate Abuja International Airport in Nigeria.

In South Africa, ACSA is to build, operate and own a new international airport at La Mercy, Durban. This facility, which is to replace the current Durban International Airport, will be commissioned in early 2010.

Apart from the new airport, ACSA has embarked on a R5,2 billion infrastructural upgrade programme to deal with the enormously increased passenger loads expected for the 2010 FIFA Soccer World Cup and beyond. With Johannesburg International Airport (JIA) earmarked as the only Airbus A380 hub in Africa, part of the upgrade will prepare JIA to accommodate the giant aircraft.

Apart from providing world-class, secure infrastructure for airlines to move people and goods to desired destinations, ACSA is proactive in promoting tourism and facilitating economic growth, job creation and environmental protection. ACSA is committed to promoting a healthy environment, and to preserving it for the benefit of present and future generations.

Improving service levels is a key focus area for ACSA. In line with international standards, ACSA is now monitoring both passenger perceptions as well as actual operational performance.

Passenger Perception Surveys are undertaken four times a year during peak operational periods. This allows ACSA to focus on what passengers require and what they perceive to be challenges. With this better understanding of what passengers require, ACSA can respond to their needs more effectively.

That ACSA is focused on creating world-class airports measuring up to international standards is underscored by the fact that it has won numerous awards over the years. Cape Town International Airport (CIA) has featured in the top two of the AETRA awards programme for best airports in the Middle East and Africa since 2003. In the AETRA service standards programme, CIA was recently rated second and Durban International third. These awards are based on a monitoring and evaluation programme that measures efficiency based on passenger experience.

JIA was awarded the 2005 African Aviation Award as "African Airport of the Year" – for the sixth successive year.

It's worth noting that these latest awards were achieved despite the fact that ACSA's airports are currently experiencing double-digit passenger growth and are in the throes of disruptive infrastructural upgrades.

# AIRPORT LOCATIONS AND STATISTICS

International airports

## JOHANNNESBURG INTERNATIONAL AIRPORT

- 8 099 219 departing passengers and 100 257 arriving air traffic movements
- World-class variety of amenities, business centres, retail centres, restaurants and bars
- 5-star hotel at terminal complex and multi-storey parkade
- Two parallel independent runways, the main landing runway is 4 418m long and 60m wide
- The airport is equipped with three instrument landing systems
- Category 9 emergency services

## CAPE TOWN INTERNATIONAL AIRPORT

- 3 433 214 departing passengers and 44 459 arriving air traffic movements
- Second after Dubai in the ACI/IATA Middle East and Africa category
- Voted Africa's leading airport at the World Travel Awards for the seventh consecutive year
- Multi-storey parkade at terminal complex
- Two runways, the longest runway is 3 201m long and 61m wide
- The airport is equipped with instrument landing systems and Category 9 emergency services


## DURBAN INTERNATIONAL AIRPORT

- 1 860 126 departing passengers and 23 917 arriving air traffic movements
- Third after Cape Town in the ACI/IATA Middle East and Africa category
- One main runway which is 2 440m long and 60m wide
- The airport is equipped with instrument landing systems and Category 8 emergency services

## Regional airports

### PORT ELIZABETH AIRPORT

- 656 111 departing passengers and 18 304 arriving air traffic movements
- Two runways, the main runway is 1 980m long and 46m wide
- The main runway is equipped with instrument landing systems and Category 7 emergency services
- Scheduled airlines are SAA, SA Express, SA Airlink, BA Comair, Nationwide and 1Time

### EAST LONDON AIRPORT

- 299 418 departing passengers and 12 149 arriving air traffic movements
- Two runways, the main runway is 1 935m long and 46m wide
- The main runway is equipped with instrument landing systems and Category 7 emergency services
- Scheduled airlines are SA Express, SA Airlink and 1Time

### GEORGE AIRPORT

- 298 540 departing passengers and 13 499 arriving air traffic movements
- Two runways, the main runway is 2 000m long and 45m wide
- The main runway is equipped with instrument landing systems
- Category 7 emergency services, upgradeable to Category 8 on request
- Scheduled airlines are SA Express, SA Airlink, Nationwide and Kulula.com

### BLOEMFONTEIN AIRPORT

- 127 817 departing passengers and 10 529 arriving air traffic movements
- Diversion airport for Johannesburg International Airport (JIA)
- Two runways, the main runway is 2 559m long and 46m wide
- Category 8 emergency services, upgradeable to Category 9 for diversions and emergencies
- Scheduled airlines are SA Express, SA Airlink and 1Time

Regional airports (continued)

**KIMBERLEY AIRPORT**

- 57 870 departing passengers and 6 212 arriving air traffic movements
- Two runways, the main runway is 3 000m long and 46m wide
- Category 5 emergency services
- Scheduled airlines are SA Express and SA Airlink

**UPINGTON AIRPORT**

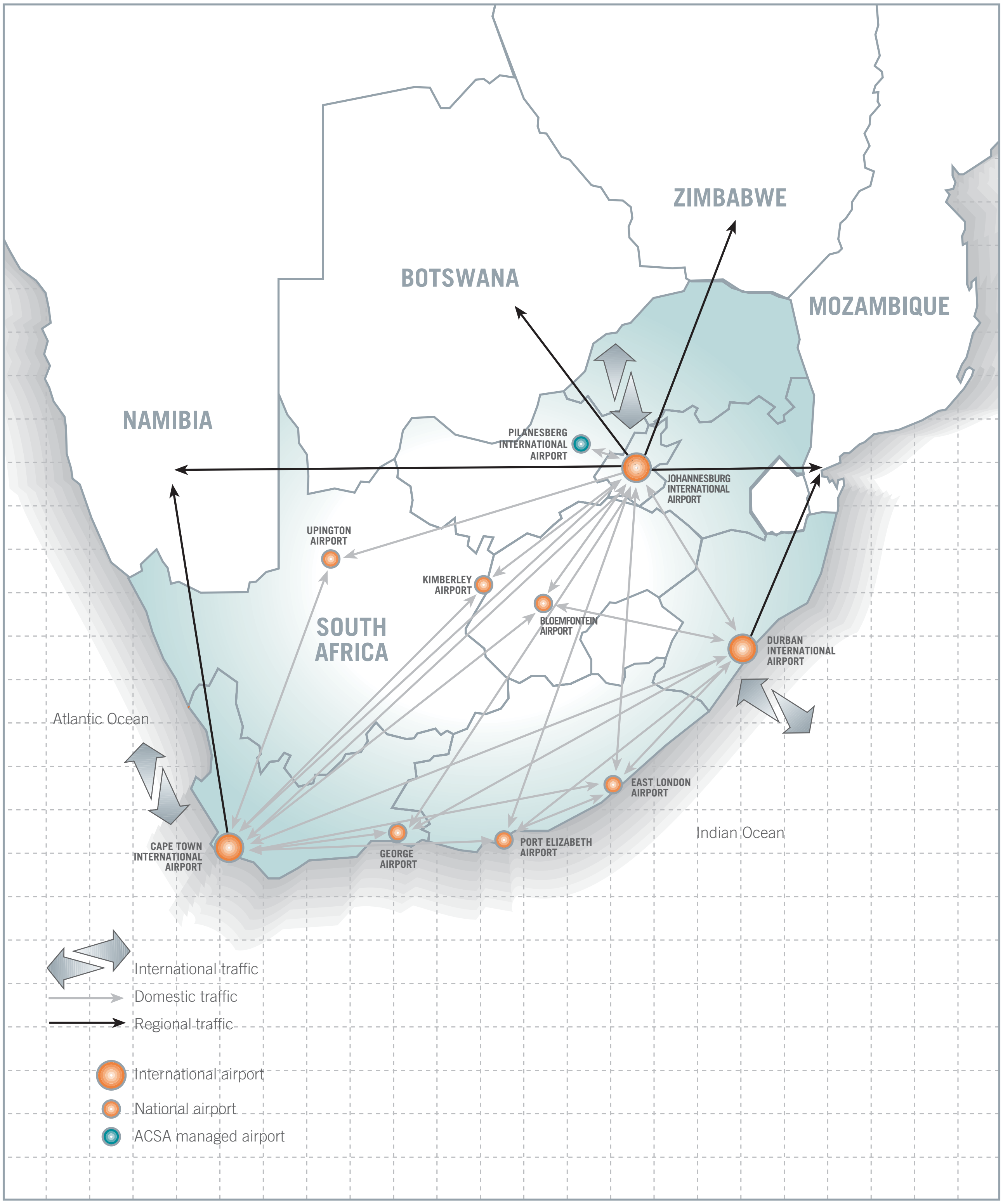
- 16 313 departing passengers and 3 788 arriving air traffic movements
- Three runways, the main runway is the longest in the southern hemisphere and is 4 900m long and 60m wide
- Category 5 emergency services
- Scheduled airline is SA Airlink

ACSA managed airport

**PILANESBERG INTERNATIONAL AIRPORT**

- 9 063 departing passengers and 2 755 arriving air traffic movements
- Located near Sun City and the Lost City Complexes
- One runway, which is 2 750m long and 30m wide
- Category 6 emergency services

ACSA AIRPORT SYSTEMS TRAFFIC PATTERNS



It is a great pleasure to present my first report as Chairman of Airports Company South Africa Limited (ACSA). It is an honour to serve a Company that plays such a pivotal role in the wellbeing of the economy of our country and one that is clearly committed to fulfilling its mandate.

I am proud to be in a position to report on what is undoubtedly a remarkable all-round performance during the financial year ended 31 March 2006.

The strong rise in EBITDA of almost 20 percent and in pre-tax profits of 31 percent, testify to a well-led company of skilled and motivated people who know their business.

That ACSA has been able to deliver exceptional achievements is thanks in part to its ability to leverage the continuing excellent performance of the national economy.

South Africa is benefiting from the longest period of economic expansion in its history. Since September 1999, the annual economic growth rate averaged 3,5 percent. In the previous decade, growth averaged less than 1 percent a year.

Prudent fiscal management brought the budget deficit down to 2,3 percent of GDP in 2004 from 5,1 percent in 1994. In the first quarter of 2005, this figure fell to 1,6 percent, with the SA Revenue Service collecting nearly US$3,5 billion more than expected.

Increased prosperity for South Africans generally, in parallel with the emergence of low cost carriers, has impacted favourably on ACSA's revenues and its outlook for the future.

In addition, international developments were also broadly conducive to the increased aircraft and passenger flows.

Ongoing tensions in areas such as the Middle East, higher fuel prices and a weakening Rand are threats that ACSA will have to deal with, as will the aviation industry as a whole.

The commercial challenges facing the industry are daunting. Yet technology makes aircraft steadily more fuel efficient and, as mentioned, low cost carriers have made flying a viable transportation option for the lower income groups.

ACSA will encourage this healthy development, not least by ensuring that the flying experience for these new entrants to the market is as pleasant as possible.

The recent announcement that the cabinet has approved an "Airlift Strategy" to address the aviation constraints identified by the Accelerated and Shared Growth Initiative for South Africa (AsgiSA), is welcomed by ACSA.

AsgiSA aims to improve the country's already remarkable economic recovery, raising economic growth to 6 percent before 2010 and halving poverty and unemployment by 2014. Tourism is a priority growth industry for AsgiSA and the new Airlift Strategy seeks to align airline services with economic growth.

**DR FRANKLIN SONN**

Non-Executive Chairman
Airports Company South Africa

It also aims at improving the international competitiveness of South African airlines in order to grow our share of the international transport market and meet the tourism and trade sectors' requirements for cost-effective and efficient air services. One proposal is that foreign airlines be allowed – subject to certain checks and balances – to provide capacity where South African airlines are unable to meet demand.

I have no doubt that this strategy will result in an increase in air traffic within South Africa, and that is obviously good for ACSA.

The Company is also aware of its obligations as a good corporate citizen to make a positive contribution in areas that fall outside our focus areas of transportation and tourism.

ACSA's concern with the environment goes to the heart of the Company's focus on sustainability. Another aspect of sustainability is corporate governance and ACSA is continually enhancing its corporate governance and risk management processes in line with international best practice, ensuring it is a transparent, accountable, responsible, effective and sustainable organisation.

It is this farsighted approach, and can-do attitude of the management and staff of ACSA, that gives me confidence in the Company's ability to meet the challenges that lie ahead.

I wish to thank my fellow Directors, the Managing Director, Ms Monhla Hlahla, and all the people of ACSA for their hard work and dedication during the past year and for their individual contributions to building the future of the Company, the industry in which we operate, and our country.

**Dr Franklin Sonn**
Non-Executive Chairman

# MANAGING DIRECTOR'S REVIEW

Airports Company South Africa (ACSA) performed exceptionally well in an economic environment that, for a number of reasons, favoured the expansion of our activities. Our financial performance facilitated our R1,2 billion investment in infrastructure for the year. Importantly, it provides a sound base for our planned future investment in the development that will be required for the Company not only to deliver on our promises, but to build the future espoused in our Vision.

**MONHLA HLAHLA**

Managing Director
Airports Company South Africa

In many respects, we are successfully fulfilling our mandate to build a better future for all South Africans by delivering the aviation infrastructure and quality personal service that are crucial for the growth and sustainability of the transport and tourism sectors. These, in turn, provide and promise material and sustainable economic growth for the country as a whole. But a great deal remains to be done and we are tackling the challenges that face us with vigour and commitment.

**PERFORMANCE INDICATORS**

Group revenue increased by 12 percent to R2,2 billion, with operating profit growing by 30 percent to R977 million as a result of efficient cost management. Earnings per share rose by 30 percent to 123,76 cents.

Passenger traffic grew by 11,4 percent and passenger numbers, which have been growing at a compound rate of 7,82 percent over the last five years, reached a new peak this year. This can be attributed to the country's booming economy and growing personal disposable incomes which enabled larger numbers of the public than ever before to travel by air. The continuing strong performance of low cost carriers ensures that larger numbers of an increasingly prosperous citizenry are able to satisfy the desire to fly to their holiday destinations, while emerging entrepreneurs are experiencing the productivity benefits low cost airfares offer their businesses.

The low cost carriers have transformed the face of holiday tourism in South Africa. They have opened new markets for domestic traffic, where most growth has occurred, well beyond the trunk routes in the "golden triangle" defined by our national airports at Johannesburg, Cape Town and Durban. They are now serving new destinations on ancillary routes which are rapidly growing in popularity, such as Port Elizabeth, East London and George. As a consequence, domestic passenger numbers rose by 14,5 percent to 10,6 million.

International traffic has also been robust with international passenger traffic numbers increasing by 4,1 percent to 3,8 million. Increasing numbers of South Africans are travelling to foreign countries against a backdrop of a relatively strong local currency, increasing prosperity and rising business confidence.

The strong growth in domestic traffic and the continuing high international passenger numbers have underpinned the growth of ACSA's aeronautical revenue in a regulatory environment where tariff increases for airlines and passengers were kept to well below inflation, at 0,3 percent.

Non-aeronautical revenue increased by 13 percent to R985 million as a result of various initiatives in a changing business environment, with commercial revenue rising by 13,08 percent to R867 million. While core retail revenue rose by only 6 percent to R310 million, largely because of lower escalation in a re-negotiated lease, innovative strategies increased income from advertising by 20 percent to R98 million. Parking revenue increased by 15 percent to R187,6 million as the result of more vehicles being parked and for longer periods. The property business unit engaged in several successful property development ventures in partnership with private sector operators and has secured future annuity income streams from rentals that help put our property business on a sound and sustainable footing.

As a result of much increased passenger volumes and strong performance in the commercial arena against a background of continuing drives to contain costs and improve productivity, we were able to increase EBITDA by nearly 20 percent to R1,4 billion (2005: R1,1 billion) and pre-tax profit by a very satisfactory 31 percent to R928,2 million. Headline earnings rose by 30,3 percent to R618,8 million.

ACSA's first time adoption of International Financial Reporting Standards (IFRS) brings us into line with international best practice and facilitates comparison with similar companies. It also magnifies our operating results and our balance sheet and income statement, as detailed in the Finance Director's Review on page 15.

The Company's capital structure is still not optimal and our gearing stands at a relatively low 22,55 percent, although this increased from nearly 5 percent last year. In order to deliver planned infrastructure over the next four years amounting to some R4 billion, ACSA will mobilise debt finance – mainly bank loans and listed corporate bonds – which will have the effect of improving shareholder value. An appropriate capital structure will also have a beneficial effect on tariffs so far as the airlines are concerned.

We will be raising R2 billion for our ongoing development projects from the capital markets in the 2007 financial year and have embarked on a public process to appoint advisers to assist us in this process.

### INTERNATIONAL RECOGNITION

Our pleasing financial performance has assisted us to fulfil our undertaking to the public of this country to provide world-class aviation infrastructure to boost economic growth.

The quality of the infrastructure and service we provide in the course of our business is underscored by the fact that our facilities once again garnered several international awards for excellence.

Johannesburg International Airport (JIA), our flagship operation and the international hub for sub-Saharan Africa, won the African Aviation Award for Airport of the Year and was placed third in the Africa region in the Skytrax World Airport Awards.

Cape Town International Airport (CIA) won the AETRA Award for the second best airport in the Middle East and Africa and took first place in the Skytrax World Airport Awards for the Africa region. It was also placed second in the Skytrax World Airport Awards for the friendliest airport staff in the world, recognition that we particularly value as confirmation of the success of our continuing drive to improve the quality of our customer service though our focused training and associated quality management programmes.

Durban International Airport (DIA) won the AETRA award for the third best airport in the Middle East and Africa and was placed second in the Africa region by Skytrax World Airport Awards.

### SALE OF AEROPORTI DI ROMA INTEREST

Clear indications of ACSA's value and the progress we have made over the past five years or so can be seen in the terms of the transaction in which our strategic equity partner, Aeroporti di Roma (ADR), disposed of its 20 percent interest in our company to the Public Investment Corporation (PIC).

ADR, an international airport management company domiciled in Italy, which acquired its interest in ACSA in 1998 for R819 million, decided to dispose of its South African investment in order to focus on its home market. The sale price was R1,67 billion. Thus, over the seven years of our partnership, ADR earned a capital gain of R856 million on its investment – equivalent to an annual compound growth rate of 10,76 percent – as well as dividends of R180 million.

At the same time, we at ACSA benefited from a transfer of some of their considerable expertise gained from long experience in managing a major international airport in a sophisticated aviation environment, and we established a most cordial, fruitful and mutually beneficial partnership.

On behalf of ACSA and the South African industry I thank ADR for their important contribution during our association.

### MUMBAI INTERNATIONAL AIRPORT DEVELOPMENT AND MANAGEMENT CONTRACT

We have of course gathered significant momentum of our own, which is partly reflected in our successful bid as part of a consortium to manage Mumbai International Airport in India. We are confident of proving our mettle in this and other similar undertakings in the future and look forward to a beneficial relationship with the PIC.

The GVK consortium – in which ACSA has a 10 percent interest – was awarded a 30 year concession to manage Mumbai International Airport in February 2006. The airport operator agreement, in terms of which ACSA provides technical support, was concluded with Mumbai International Airport Private Limited (MIAL) at the beginning of May this year, when the concession began.

ACSA has seconded several Executives from its ranks to fill the positions of airport Director, General Manager airside, and General Manager terminal. We have also completed the design of an airport operations information technology system and an engineering and technical assessment for MIAL.

ACSA regards this agreement with MIAL as an important strategic investment. It promises good returns in the medium term in one of the world's fastest growing economies, as indicated by 24 percent year-on-year growth in passenger traffic in the first quarter of the concession. Having said that, our equity exposure was necessarily limited by the revenue sharing transaction model, the highly geared non-recourse debt financing involved and the shared dual till regulatory regime under which the airport operates.

### DELIVERING WORLD-CLASS INFRASTRUCTURE

During the review period, ACSA spent R1,3 billion in creating new infrastructure at our airports. Apart from improving the efficiency and quality of aviation in this country for the benefit of the economy, this huge capital expenditure has multiple spin-off benefits for the country and the regions in which our airports are located – not least in supporting BBBEE initiatives through affirmative procurement of goods and services.

Details of ongoing infrastructure development are provided in the Aviation Services report on page 26 of this document.

It is, however, important to note that our investment in infrastructure goes beyond the physical construction that is so visible at our airports. Our ever-changing business environment requires accurate and relevant information as a prime requirement. Information is defined as the result of three dimensions – process, people and technology. These dimensions need to work in harmony in order to deliver value to the Company and our stakeholders and to enable us to deliver on our promises and build the future.

An assessment of our current operational environment (processes and technology) revealed that these are placing in jeopardy the sustainability of the environment to support the expected growth in passenger numbers and the subsequent additional operational workloads.

At the start of 2006, a team of senior managers embarked on a project to develop a solution, which resulted in the Company agreeing that ACSA as a whole needs to focus on integrating and harmonising processes across our operations as a means of establishing 'one source of truth' across the entire organisation.

This has resulted in our defining a new operating model which will enable us to deliver an efficient and cost effective environment while ensuring that we are able to provide higher levels of stakeholder satisfaction as a result of efficient processes, integrated information and rapid decision making. By putting in place the IT capabilities needed to support this new operating model, the Company will benefit from transactional efficiencies and sharing of specialised skills across all airports.

This new operating environment relies on the adoption of a services delivery model supported by a service orientated IT environment. In order to achieve this, a comprehensive, integrated and well-considered continuous improvement roadmap has been developed that will launch ACSA to a new level of operational efficiency and service delivery.

### SAFETY AND SECURITY

ACSA will continue to intensify its focus on security, partly in collaboration with the industry as a whole under the leadership of the Civil Aviation Authority (CAA) chief of security. We will deploy a greater number of specialised units at JIA and CIA, while working for better co-ordination of state security agencies through the National Airports Security Council. The Company is in the process of augmenting its intelligence capabilities, increasing the training of immigration officers and generally seeking more effective industry co-ordination of security measures. More details about the steps ACSA is taking on the security front can be found on page 29.

### HUMAN RESOURCES

During the year various projects were launched that were aimed at achieving employer of choice status. The process started with an employee survey that showed a good response rate. This formed the basis of a strategy for the leadership team dubbed AVIATE emphasising the need for management to be more: accessible, visible, inclusive, accountable, transparent, and empowering.

We qualified for the full NQF rebate having achieved 92 percent of targeted training initiatives and strengthened the ACSA training academy to the extent that it has been named the accredited ICAO Training Centre for the whole of Africa.

Our women's empowerment programme in skills and experience required by the aviation sector is bringing forward growing numbers of suitable qualified women and our engineering training project has produced its first group of qualified aviation planners.

The National Education, Health and Allied Workers Union (NEHAWU) has emerged as the trade union representing most of our workers and the Company has established a sound relationship with it.

### HIV/AIDS

We have produced a DVD depicting the lives of three of our women employees who made public the fact that they were living with HIV/AIDS. This is a useful communication tool in our continuing programme to combat the spread of the epidemic and manage its effects. We have also engaged the Careways Group in a three-year contract to partner with us in driving the programme.

### REGULATORY ENVIRONMENT

We have begun consultations with stakeholders before drafting the Permission Application for the permission to levy tariffs issued by the Regulatory Authority. We will submit the application for Permission by 30 September 2006. There is no question that the emerging tariff increases will be heavily influenced by our budgeted capital expenditure programme over the next few years.

### PROSPECTS

ACSA is determined to continue delivering airport infrastructure capacity, improved customer service, safety and security. In doing so we will enhance the ACSA world-class brand and strive to increase the number and geographical range of our airport management and development concessions.

We believe that low cost carriers will continue their significant impact on the air travel habits of masses of South Africans and, whilst the market is beginning to mature, data from elsewhere suggests that South Africa still lags behind other developing nations in this regard and that there is scope for further growth in passenger numbers.

International and regional tourism to and from South Africa seem likely to continue to grow and we are confident that the skills, experience, innovative capacity and energy of our people will again produce a good set of results next year.

### THANKS

I wish to thank the Chairman and my fellow Directors for their unfailing helpfulness, wise counsel and hard work. Finally, I thank all the workers of ACSA for continuing to give their best and producing another set of excellent results across a wide front.

**Monhla Hlahla**
Managing Director

**OVERVIEW**

The Airports Company South Africa (ACSA) Group recorded another strong financial performance for the year ended 31 March 2006 with revenues of R2,175 billion up 12 percent on the previous year, EBITDA of R1,4 billion up 20 percent on the previous year and earnings per share increasing by 30,3 percent to 123,76 cents per share. The Group's total assets increased by 28,2 percent off the back of capital expenditure of R1,3 billion (2005: R492 million).

**ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)**

During the financial year, the Group adopted International Financial Reporting Standards (IFRS) from South African Generally Accepted Accounting Practice (SA GAAP). This transition was made so that the Group would maintain its adherence to the highest standards of International Financial Reporting. This decision was also informed by the initiatives of the South African Standards Setting Body's intention for convergence between South African and International Reporting Standards.

The major impacts of the transition to IFRS are:

- Valuation of the majority of property, plant and equipment (PPE) at deemed cost and the use of this deemed cost for future periods. PPE previously reported at R4 billion was restated to R7 billion as at 31 March 2005. A deferred tax liability of R693 million was raised in this regard. This also resulted in an increase in depreciation in the 2005 financial year of R150 million.
- The smoothing of lease income over the term of the lease. This change was necessitated by a change in the interpretation of the accounting standard relating to leases. A lease receivable of R160 million and a corresponding deferred tax liability of R46,5 million were recognised.
- Consolidation of companies in which the shares relating to the Employee Share Ownership Programme (ESOP) are held. This resulted in a reclassification of R44 million from non-current receivables to the treasury share reserve.

**MACROECONOMIC ENVIRONMENT**

The economic environment in South Africa continued to be favourable. The year was characterised by a significant change in both actual and expected economic growth. This increase in the expected economic growth has been underpinned by the macroeconomic reform and political stability which has created a conclusive environment for domestic and international investors.

Inflation remained well within the 3 percent – 6 percent target range set by the South African Reserve Bank. The relatively strong rand mitigated the effects of high oil prices. Although actual and expected inflation increased in the last quarter of the financial year and continued into the fist quarter of the 2007 financial year, the Reserve Bank is committed to the inflation targeting framework.

The above mentioned macroeconomic environment provided conducive conditions for traffic growth, particularly domestic passenger which increased by 14,5 percent to 10,6 million passengers. The contribution of the low cost carriers to this growth was once again significant. The emergence of low cost carriers in South Africa is comparable to their impact in developed and developing countries.

**AERONAUTICAL REVENUES**

ACSA's Aeronautical Revenues comprise primarily of landing fees charged to the airlines as well as the Passenger Service Charges which did not increase during the financial year. Underpinning the 11 percent year-on-year increase in aeronautical revenue, was an increase in Air Traffic Movements (ATM's) on which landing fees are charged of 7,9 percent and an increase in departing passengers of 11,4 percent. Domestic passenger growth was the most robust delivering a 14,5 percent increase in passengers off the back of an 8,2 percent increase in ATM's. The Compound Average Growth Rate of Aeronautical Revenue over the last five years has been 11,3 percent.

**NON-AERONAUTICAL REVENUES**

ACSA's non-aeronautical revenues continue to contribute significantly to both the Group's revenues and profitability. This contribution is particularly important in reducing the tariffs for aeronautical activities as ACSA's aeronautical tariffs are set in terms of the single-till price cap methodology.

Non-Aeronautical Revenues comprise mainly of Retail and Property Income which increased 17 percent and 2 percent respectively. Key components of the Retail Revenue are Advertising, Parking, Retail Stores, Duty-Free Stores and Car Hire whilst the key component of Property Income is rental income. Contribution to total revenue from non-aeronautical revenue remained constant at 45 percent. Strong revenue growth was delivered from parking and advertising revenue which increased by 15 percent and 20 percent respectively.

**OPERATING EXPENSES**

Operating expenses increased 1,4 percent to R1,21 billion for the year to 31 March 2006. The Group's depreciation and amortisation charges increased by 1 percent to R382 million. Excluding the depreciation and amortisation charges, the Group operating expenses increased by 2 percent to R824 million.

**STAFF EXPENSES**

Staff expenses increased by 6 percent to R356,5 million (2005: R336,7 million). Headcount for the Company measured on the Full Time Equivalent (FTE) basis of calculation increased by 3,8 percent to 1 817 (2005: 1 750). This increase in staff numbers was the significant contributor to the increase in the staff costs. Annual increases in salaries and wages were comparable with the industry averages. Employee productivity continues to be monitored and all ratios indicate that the employee productivity continues to increase.

**REPAIRS AND MAINTENANCE**

Repairs and Maintenance costs increased by 3,37 percent (2005: 5,97 percent) to R102 million (2005: R99 million). ACSA had adopted a prudent approach to facilities management to ensure minimal downtime of our facilities. In addition to scheduled maintenance, there is an increased focus on preventative maintenance aimed at increasing the operating efficiency of our facilities.

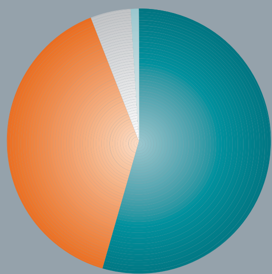
**OTHER OPERATING EXPENSES**

ACSA continues to apply a proactive approach to the management of operating expenses without compromising service levels. We have continued to invest significantly in safety and security, customer service training. Other Operating Expenses decreased by 2 percent (2005: increase of 4,2 percent) to R366 million (2005: R374 million).

**EBITDA**

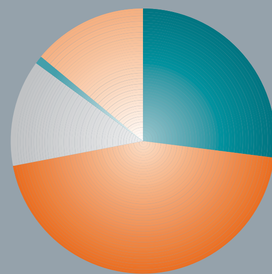
EBITDA increased by 19,8 percent (2005: 1 percent) to R1,36 billion for the year to 31 March 2006. Over the last five years the Group's EBITDA margin improved from 57 percent to a peak of 62 percent during 2006.

### REVENUE BREAKDOWN
(R'000)



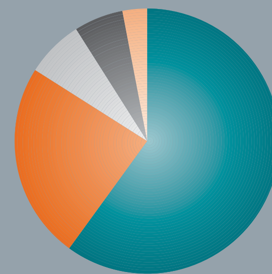
| | | |
|---|---|---|
| 55% | Aeronautical revenue | R1 190 203 |
| 40% | Commercial income | R868 271 |
| 5% | Non-aeronautical charges | R116 371 |
| 0% | Other | R8 623 |

### AIRPORT RETAIL REVENUE
(R'000)



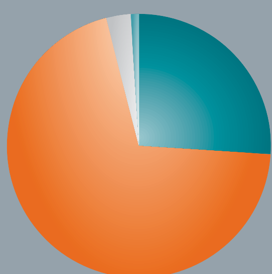
| | | |
|---|---|---|
| 27% | Parking | R187 644 |
| 45% | Retail | R310 214 |
| 13% | Car Hire | R90 028 |
| 1% | Lease smoothing | R9 496 |
| 14% | Advertising | R98 253 |

### CAPITAL EXPENDITURE
(R'000)



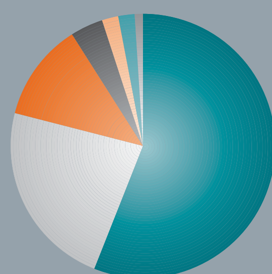
| | |
|---|---|
| Johannesburg International | R746 895 |
| Cape Town International | R291 568 |
| Durban International | R83 814 |
| National airports | R76 607 |
| Corporate office | R38 043 |

### DEPARTING PASSENGERS PER CATEGORY



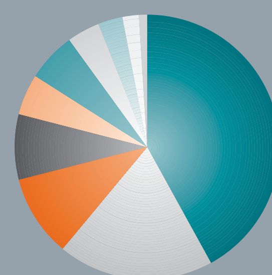
| | | |
|---|---|---|
| 25,86% | International | 3 842 256 |
| 71,08% | Domestic | 10 560 289 |
| 2,6% | Regional | 385 777 |
| 0,46% | Non-scheduled | 68 943 |

### DEPARTING PASSENGERS PER AIRPORT
(000's)



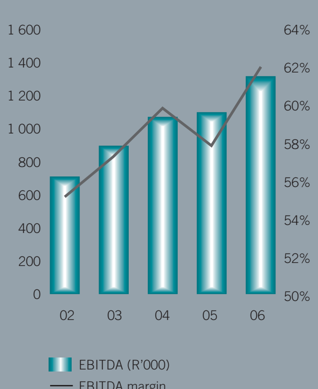
| | |
|---|---|
| Johannesburg International | 8 099 |
| Cape Town International | 3 433 |
| Durban International | 1 860 |
| Port Elizabeth | 656 |
| East London | 299 |
| George | 299 |
| Bloemfontein | 128 |
| Kimberley | 58 |
| Upington | 16 |
| Pilanesberg International | 9 |

### AIRCRAFT LANDINGS PER AIRPORT
(000's)

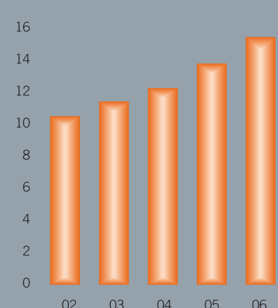


| | |
|---|---|
| Johannesburg International | 100 |
| Cape Town International | 44 |
| Durban International | 24 |
| Port Elizabeth | 18 |
| East London | 12 |
| George | 13 |
| Bloemfontein | 11 |
| Kimberley | 6 |
| Upington | 4 |
| Pilanesberg International | 3 |

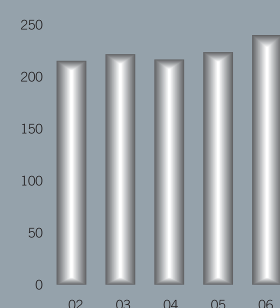
### EBITDA AND EBITDA MARGIN




### TOTAL PASSANGERS HANDLED
(Departing only) (Millions)




### AIR TRAFFIC MOVEMENTS
(Landings only) (Thousands)



Contributions to the Group's EBITDA were led by the three major airports being Johannesburg International Airport (JIA), Cape Town International Airport (CIA) and Durban International Airport (DIA).

### HEADLINE EARNINGS PER SHARE AND DIVIDEND PER SHARE

Headline Earnings per share increased by 30,3 percent (2005: 0,5 percent) to 123,76 cent and the dividend per share increased by 29 percent (2005: -31.65 percent) to 58,37 cent.

Based on the normal dividend of R310 million, the proposed dividend can be summarised as follows:

| | 2006 | 2005 |
|---|---|---|
| Dividend Cover (times) | **2,00** | 1,61 |
| Dividend per share (cents) | **62** | 59 |
| Growth in Dividend per share (percent) | **5,1** | (8,06) |

(Based on the accounting standards relating to dividends, the proposed dividends have not been recognised in the financial statements)

Further to the normal dividend proposed above, the Company proposes a special dividend of R895 million. The Company aims to achieve an optimal capital structure that balances risk and return to minimise the Weighted Average Cost of Capital and thus maximise equity value for shareholders. Declaration of this special dividend seeks to start addressing the Company's ineffective capital structure.

In determining the special dividend, the Company has taken into consideration factors such as:

- Economic factors – including the economy, traffic growth, interest rates etc;
- Benchmarking with other airports and their capital and funding structures;
- Identified and evaluated key revenue drivers, cost drivers and capex requirements;
- The commercial bankability of increasing the gearing levels of the Company;
- The Company's hurdle rates defined using the Weighted Average Cost of Capital;
- The funding requirements of our BEE Shareholders.

### BALANCE SHEET

The Group's total assets increased by 28,2 percent (2005: 89,1 percent) to R9,89 billion (2005: R7,72 billion) off the back of capital expenditure of R1,26 billion (2005: R492 million). Other significant contributors to the increase in total assets are the increase in the cash balances. The Group gearing increased to 22,6 percent (2005: 4,7 percent).

### CAPITAL EXPENDITURE

The Group's capital expenditure remains concentrated on the three major International Airports namely, Johannesburg International Airport (JIA), Cape Town International Airport (CIA) and Durban International Airport (DIA) where the Group invested 89 percent of the R1,26 billion incurred for capital expenditure during the financial year. R76,6 million in capital expenditure was invested at the National Airports, which include Port Elizabeth, East London, George, Bloemfontein, Kimberley, Upington and Pilanesberg International Airport.

### FINANCING

The Group's long-term borrowings decreased from R270 million to R77 million during the financial year. Short-term borrowing facilities have been utilised to fund the Group's capital expenditure. The implementation of an appropriate funding structure is well advanced and will be implemented during the 2007 financial year.

The Group repaid two of its facilities during the current financial year. However as a result of the capital expenditure programmes, various short to medium term facilities have been negotiated. The Group maintains sufficient facilities to meet its capital expenditure plans operating expenses and distributions.

### CASH FLOW

Cash Flow from operating activities increased by 39 percent to R1,024 million from R734 million the previous year. This performance was underpinned by a 37 percent increase in cash generated by operations to R1,73 billion and decreases in the interest cost as well as the dividends paid. The Group ended the year with positive cash balances of R1,35 billion.

### CAPITAL EXPENDITURE PLANS

The majority of the capital commitments for the 2007 financial year relate to further investments at our three primary airports. The envisaged investment for the Company for 2007 is R1,56 billion. This forms part of the Company's envisaged R5,2 billion capital investment for the period 2005 – 2009.

As at 31 March 2006, most of the Group's investment plans were at an advanced stage. Consequently the Group's capital commitments amounting to R4 billion had already been contracted for and work had commenced on most of the construction sites. ACSA is now planning for the period beyond 2009.

### CONCLUSION

The Group's financial performance was yet again pleasing. With the exception of three of our smaller airports, all airports achieved a positive EBITDA. This financial performance provides a sound base for the planned capital investment programme, the bulk of which has been approved and contracted for.

Passenger numbers are set to continue increasing, albeit at a slower rate, for the foreseeable future. ACSA will continue to focus on improving service, particularly improving the passenger experience at our airports. Investment in safety and security will continue to be a focus and we will strengthen co-operation with State Agencies involved in Safety and Security.

The Group's financial prospects will be determined by:

- Growth in passenger numbers;
- Regulated airport charges;
- Revenues and operating margins achieved from our non aeronautical activities; and
- Delivering the planned infrastructure within budget and on time.

**Brooks Mparutsa**
Executive Director: Finance

# BOARD OF DIRECTORS

## FRANKLIN SONN

Democratic South Africa's first ambassador to the United States (1995 – 1998), Franklin Sonn is the recipient of 13 honorary doctorates and has held many distinguished positions. He was rector of the Peninsula Technikon from 1978 to 1994. Although he terminated all his Directorships when he became ambassador to the USA in 1995, he is once again serving on the boards of many companies, including ABSA Bank Ltd; ABSA Group Ltd; ABSA Personal Bank; SAPPI Ltd; Macsteel Holdings Ltd; Safmarine (Pty) Ltd; Steinhoff International Holdings Ltd; RGA Reinsurance Co. of SA Ltd; Kwezi V3 Engineers (Pty) Ltd (Chairman); Ekapa Mining (Pty) Ltd (Chairman) and Pioneer Food Group etc. He serves as trustee on the Nelson Mandela Foundation, The Legal Resources Trust and World Wide Fund for Nature SA. He is the Chancellor of the University of the Free State since 1992. Appointed to the Board of ACSA as Non-Executive Director on 1 October 2000 and as Chairman on 2 September 2005.

## MONHLA HLAHLA

Monhla Hlahla was appointed Managing Director of Airports Company South Africa (ACSA) on 1 November 2001 after serving the Company as a Non-Executive Director. A former political activist, she completed Bachelor & Honours degrees (Economics) and a Masters (Urban and Regional Planning) in the United States of America. During her studies she also worked for the Coalition for Women's Economic Development in Los Angeles.

In 1994, she reinvested her expertise in South Africa and joined the Development Bank of Southern Africa (DBSA), where she successfully managed several large infrastructure projects. She was also responsible for structuring and analysing the DBSA's development support programme to the Northern Province, as Regional co-ordinator. Other highlights during her time with the DBSA include: managing the Commonwealth Africa Investment fund and being seconded to the Municipal Infrastructure Investment Unit as Chief Executive Officer.

Following her achievements with the DBSA, she joined Old Mutual Employee Benefits as Regional Manager, Northern Region, a position that she held until she was appointed CEO of ACSA.

During her career she has assumed various leadership roles. Presently she serves as a Non-Executive Director of Air Traffic and Navigation Services (ATNS). She is the second Vice-Chairperson and Special Advisor to the Chairperson of Airports Council International World Governing Body. Additionally, she holds Non-Executive Director positions at ABSA Bank Ltd and the IDC (Industrial Development Corporation).

Her experience in the public and private sectors has ensured experience in strategic management and business leadership. Her holistic involvement in the aviation industry promotes insight that has secured positive outcomes for ACSA. In 2002 she was named as one of the country's top 12 Business Personalities and was titled one of the top five Women in Business and Government in 2004. On 2 August 2005 she received the Business Women Association's (BWA) Business Woman of the Year, 2005 Award, and on 3 November 2005 she received the 2005 award for Black Business Quarterly (BBQ) Magazine's Woman of the Year.

## BROOKS MPARUTSA

CA (SA)

Brooks Mparutsa progressed through the ranks of PricewaterhouseCoopers (formerly Coopers & Lybrand) from an articled clerk to a Senior Audit Manager. Thereafter, he joined South African Airways (SAA) in the capacity of Director: Corporate Finance and Head of Structured Finance, gaining a taste for the aviation industry, however, departing in 2002 for the opportunity of further growth. Stanbic Africa (ultimate holding company being Standard Bank of South Africa) offered this opportunity in the form of Head of Finance: East Africa and thereafter in Corporate Banking. He was based in Tanzania for part of his banking career and it was toward the end of 2004 that the aviation industry once again beckoned. Departing Stanbic, he was appointed by Airports Company South Africa in January 2005 as the Executive Director: Finance. Brooks also serves as a Non-Executive Director of several Group companies, including Mumbai International Airport.

Prior to joining ACSA, he also was a Non-Executive Director of several companies in the hospitality and tourism industry such as Sun International and North West Parks and Tourism Board.

## NOLULAMO GWAGWA

Nolulamo Gwagwa holds a PhD from the University of London. She was the CEO of the Independent Development Trust after having served as the Deputy Director General in the National Department of Public Works. She serves as a Non-Executive Director of First Rand, Sun International and the Development Bank of South Africa. She is currently the Chief Operating Officer of Lereko Investment (Pty) Ltd.

## SIPHO SITHOLE

Sipho Sithole holds a BSc in political science from Lincoln University and an MSc in industrial relations from London University. As Assistant General Manager for Strategic Development and Industrial Relations at ACSA, he assisted in the restructuring of ACSA and the Company's transformation programme. Previously a human resources Director at Ericsson South Africa, and later Managing Director of EXi Telecommunications, he joined Johnnic Entertainment as Group Executive for strategy and new business and is the former Deputy CEO for Gallo Music Group (a division of Johnnic Communications Limited). He also sits on the Board of Momentum Group Limited (part of the First Rand Group). He is currently self employed as President and Chairman of Native Rhythms Productions which is self owned. The Company is responsible for music publishing, record labels, films and documentaries and events management.

## BRIAN MOLEFE

Brian Molefe has extensive experience in financial and economic management in the public sector. He holds a Master of Business Leadership degree from UNISA, a Post Graduate Diploma in Economics, London University, School of Oriental and African Studies and obtained his Bachelor of Commerce at UNISA, majoring in Accounting and Economics.

He is the CEO of the Public Investment Corporation Limited (PIC) responsible for the overall management of the PIC which manages assets in excess of R560 billion (mainly the Government Employees Pension Fund). Previously he held the positions of Deputy Director General at the National Treasury with the portfolio of Asset and Liability Management. He held the post of Chief Director: Strategic Planning in the Office of the Premier of Limpopo, before joining the National Treasury as Director: Intergovernmental Relations.

## WAYNE (CLIFFORD) VAN DER VENT

Wayne (Clifford) van der Vent has extensive experience in Property Management, Development and Asset Management. He completed his BA Law degree in 1988 at UCT where he majored in Politics and Private Law.

He currently holds the position of Head of Properties Division of the Public Investment Corporation Limited and is a Director of Pareto Limited. Previously he held various positions at Futuregrowth Asset Managers, including being a Property Portfolio Manager, a Director (2002) and the Head of Development Funds/SRI (2004). He also worked for Monex Development as a Property Manager and as a Property Asset Manager of the Community Property Fund.

## BRIAN STOCKS

Brian Stocks is an accountant turned entrepreneur with extensive experience in the resort property and tourism industries. He also holds a pilot's licence with over 4 000 hours flying experience. He is currently Chairman of Sun International Vacation Club and Brian Stocks Properties Group.

# EXECUTIVE COMMITTEE AND OPERATING STRUCTURE

## AIRPORT OPERATIONS

**Bongani Maseko** *Director: Operations*

Bongani Maseko took up his position in September 2004. He is responsible for the day to day operations at all Airports Company South Africa (ACSA) airports. Prior to this he spent three and half years leading Johannesburg International Airport (JIA) as the General Manager. He gained considerable experience at San Francisco International Airport in the USA where he worked for eight years in various capacities. He has a degree in aviation business administration from Embry-Riddle Aeronautical University in Florida (USA). His studies focused on airport and airline management. He continued his studies at the University of California in airport systems planning and design and airport ground transportation planning.

## JOHANNESBURG INTERNATIONAL AIRPORT

**Chris Hlekane** *General Manager*

Chris Hlekane has a BSc Honours in Chemistry. Having recently completed the Airport Strategic Management programme with IATA in co-operation with Airports Council International, he is currently in the process of completing a Financial Management programme with UNISA.

Prior to joining ACSA he was Operations Director at MX Health, which was at the time the fourth largest administrator in South Africa. He was involved in client management and interface as well as stakeholder relations including the government, correctional services department, safety and security department and the medical fraternity at large. Before this, he was operations manager at L'Oreal, responsible for the Carson-Midrand manufacturing plant.

He is responsible for regional aeronautical income management; implementing and ensuring compliance with defined service standards; providing a safe (including Fire and Rescue services) and secure environment through compliance with set standards; ensuring optimal usage and maintenance of airport infrastructure including the implementation of the Company's infrastructure development programme ahead of the FIFA 2010 World Cup; optimising allocation of space and infrastructure for non-aeronautical activities; ensuring compliance with airport licence requirements and international regulatory framework and managing relations with airlines and other related airport stakeholders to improve operational effectiveness.

## CAPE TOWN INTERNATIONAL AIRPORT

**George Uriesi** *General Manager*

George Uriesi's career includes more than 12 years of broad aviation experience cutting across airport and airline operations as well as both the economic and safety aspects of the aviation regulatory environment. A qualified Flight Dispatcher, he has worked at various times as an Operations Officer, an Operations Manager and an Aviation Safety Manager. He also spent three years in fast moving consumer goods Logistics Management with multi-national FMCG company, Procter & Gamble South Africa.

Prior to his appointment as General Manager of Cape Town International Airport in January 2005, he was ACSA's Group Manager for Safety and Compliance with responsibility for operational safety, emergency management, environmental affairs and regulatory compliance. He is also a member of the International Air Services Council, the statutory body responsible for regulating international air services out of South Africa.

He holds a BA (Hons) degree in the Humanities and a Post-Graduate Diploma in Public Relations as well as several professional qualifications including the University of Southern California's Certificate in Aviation Safety Program Management and the ACI Airport Executive Leadership Certificate from the John Molson School of Business, Concordia University, Montreal, Canada. He is also currently pursuing part-time post-graduate studies in Aviation Management from Swinburne University of Technology, Hawthorne, Australia.

## DURBAN INTERNATIONAL AND DOMESTIC AIRPORTS

**Deon Cloete** *Regional General Manager*

Deon Cloete holds two degrees, a BCom and a Masters in Business Leadership from the University of South Africa. He has 20 years' experience in the aviation industry; his extensive experience is further enhanced by having served in the fields of both airports and airlines. DIA has been positioned over the last four years as a leading entity in terms of financial performance, systems, service standards and development. These achievements have positioned him and his team favourably to assume responsibility for the management and development of the seven national airports, Port Elizabeth, East London, George, Bloemfontein, Kimberley, Upington and Pilanesberg. This is done whilst still remaining responsible for Durban International Airport (DIA) and using Durban as a Regional Office for the eight airports.

## COMMERCIAL SERVICES

**Rory Mackey** *Group Executive*

Rory Mackey is a registered professional engineer with post-graduate qualifications in transportation planning, economics and finance. He has in excess of 20 years' experience in aviation and has also worked in the consultancy, construction and retail industries. He was Regional General Manager at Johannesburg International Airport (JIA) for five years prior to taking up his current role at the beginning of 2001.

The division creates and manages non-regulated revenue streams. In order to maximise the potential for earnings growth, Airports Company South Africa (ACSA) has in recent years focused on increasing the proportion of income derived from retail (including parking, car rental and internet connectivity), property development and advertising to group revenue. The division also has a specialist department dedicated to leveraging value internationally from ACSA's unique airport management competence.

## HUMAN RESOURCES

**Pieter du Plessis** *Group Executive*

Pieter du Plessis, a registered industrial psychologist, has extensive experience in strategic human resource management, transformation and change management and human resources capital development. He was human resources manager at Johannesburg International Airport (JIA) for six years after which he managed the operations portfolio also at JIA, in the capacity of Assistant General Manager Operations for more than three years, thus combining his Human Resources exposure with operational experience. He was subsequently promoted during 2003 to the position as Group Executive: Human Resources for Airports Company South Africa (ACSA). His responsibility includes all areas of Human Resources Management for the 10 major airports in South Africa.

The Human Resources Strategy is aligned with the overall company strategy and it is important for the Human Resources division to ensure that the entire workforce is focused and prepared to face future challenges. The division's main ongoing initiatives are to recruit, deploy and retain high quality and value adding human capital; develop employee capability through training, development and education; further strengthen the stable employee relations environment and improve performance through innovative productivity improvement and remuneration management processes.

## COMMUNICATIONS AND BRAND MANAGEMENT

**Charmaine Lodewyk** *Group Executive*

Charmaine Lodewyk has 22 years' experience in public relations, communications and marketing within the services industry. Prior to joining ACSA she worked for the Sun International Group in various PR and marketing roles and left the Group as Group Manager: Communications. She holds a BSocSc degree from the University of Cape Town.

The objective of the Communications and Brand Management division is to convey to the marketplace ACSA's status as a dynamic and successful partially privatised, public enterprise that is engaged in transforming itself and the commercial environment in which it operates. Its focus is on developing the ACSA brand, particularly in light of the newly articulated drive to increase tourism flows and passenger numbers.

## COMPANY SECRETARY

**Martina Rolene Wiswe (Tinka)** *Company Secretary*

Martina Rolene Wiswe (Tinka) holds a BProc (UNISA) and LLB (UCT) degrees and is an admitted attorney. She joined ACSA in November 2003 as the Company Secretary and Group Executive: Corporate Governance and Procurement. Prior to joining ACSA she was the legal compliance officer at Trans-Caledon Tunnel Authority (a major public entity in the water sector) and before that was the Corporate Secretary of the Development Bank of Southern Africa.

The unit for which she is responsible is tasked with developing and overseeing systems to ensure that the procurement of contracts, goods and services is in line with the regulatory regime and best international practice, the provision of legal services in the Company and the achievement of the Black Economic Empowerment objectives of the Company.

## INTERNAL AUDIT AND RISK MANAGEMENT

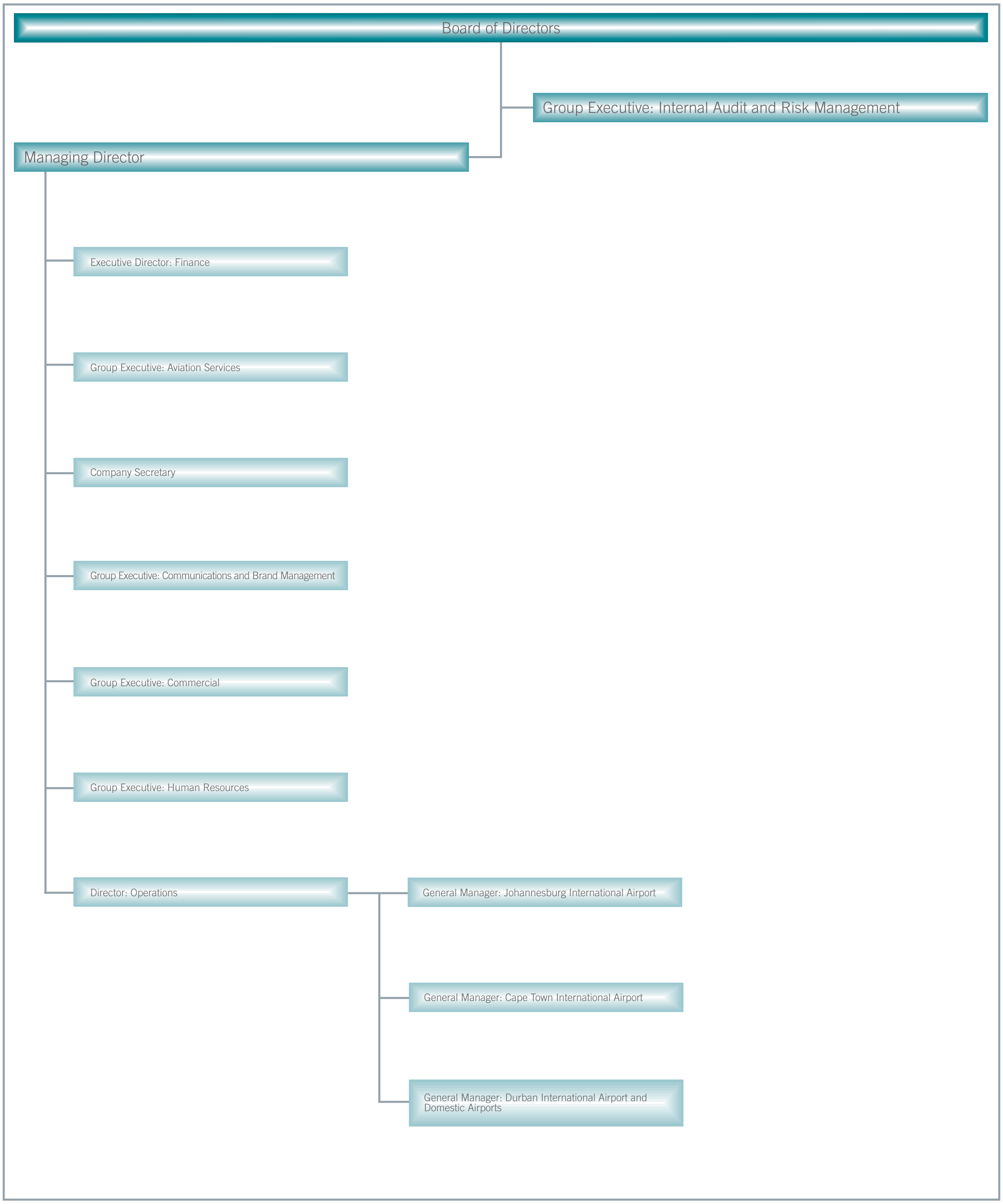
**Sello Hlalele** *Group Executive*

Sello Hlalele has spent the last 14 years as both external and internal auditor, having served his articles with PWC. He has headed various auditing departments including Unihold Group Ltd (listed on JSE and London Stock Exchange), before joining ACSA in May 2003.

His strategic key focus is adding value to the shareholders through giving them assurance that internal controls, risk management and governance processes are functioning as intended by the Board and monitoring and improving controls to mitigate risks that may impact on ACSA strategic objectives.

*Note: Monhla Hlahla and Brooks Mparutsa serve as Executive Directors and their CVs appear on page 18.*

**ACSA OPERATING STRUCTURE**



Airports Company South Africa's (ACSA's) airports are under pressure. Passenger numbers are increasing significantly year-on-year and during the current review period, domestic passenger numbers grew by 14,5 percent. Last year, numbers were up by 14,2 percent on the previous year – and ACSA expects a reasonable increase in passenger growth in the foreseeable future. Indeed, the emergence and growth in popularity of low cost airlines, which are making flying increasingly accessible to a wider spectrum of the population, should see the growth trend in passenger numbers accelerating.

ACSA identified this trend several years ago and recognised that if it was to fulfil its mandate to enable smooth and effective air transportation within South Africa and if it was to continue to perform at levels of efficiency that promote rather than hinder economic development, it would have to invest in a major infrastructural upgrade programme.

Plans to upgrade the three major international airports at Johannesburg, Cape Town and Durban were developed. The smaller airports were scrutinised and plans for their sustainability were also developed. Then South Africa won the bid to host the FIFA Soccer World Cup in 2010, and ACSA realised that its plans would have to be fast-tracked to cope with the flood of tourists, players and officials who would flock to South Africa for the event.

It is therefore satisfying to report that the Company's R5,2 billion infrastructural upgrade programme is in full swing. During the review period ACSA invested R1,259 billion (2005: R492 million) in capital expenditure. R747 million (2005: R277 million) was invested at Johannesburg International Airport (JIA) whilst R292 million (2005: R114 million) was invested at Cape Town International Airport (CIA).

Most of the major capital expenditure projects have been approved by the Board of Directors resulting in capital commitments of R4,194 billion at 31 March 2006 (2005: R865 million). 97 percent of the capital commitments have already been contracted and for most of the projects, construction has commenced. The budgeted capital expenditure for the 2007 financial year is R1,564 billion.

The fast-track programme to complete the bulk of projects in time for the World Cup is on schedule.

### JIA

At JIA, construction of the new R1,9 billion Central Terminal Building linking the current domestic and international terminals is well under way, with the bulk excavations, the foundations and the piling complete. The project is planned to be completed by the end of 2009, six months before the 2010 Soccer World Cup.

The Central Terminal Building is designed to give passengers a smooth and uninterrupted travel experience by facilitating processing through the various check-in and departure procedures, transfer and the like. The new arrivals area will also include four new 90-metre carousels to accommodate the passenger loads of the new generation A380 aircraft. Depending on their seating configuration, these Airbus aircraft will be able to carry between 550 and 800 passengers.

Nine new aircraft stands with double spoke air bridge links directly into the terminal will increase airside capacity and accommodate the A380 aircraft. Generally, the dual air bridges will make the boarding and disembarkation of passengers a great deal more convenient, enabling them to travel in more comfort than the far smaller number of passengers flying the Boeing 747.

The new R512 million international pier, construction on which began in September 2005, will be completed in January 2008, although the main portion will be opened early in 2007.

This will facilitate the handling of the new A380 aircraft and the easy movement of large numbers of passengers through the air bridges as boarding and disembarking will be able to take place simultaneously through the upper and lower levels. The result will be improved passenger service and airline will be enabled to improve their turnaround times. The pier will also provide additional passenger holding space and an expanded duty-free mall for international passengers. Construction of the new concrete stands for the A380 (R200 million) will be completed before the end of 2006.

The Central Terminal Building will have sufficient check-in counters, security controls and emigration counters to serve large numbers of passengers quickly and efficiently. It will also be connected to the Gautrain Rapid Rail Link for easy access to train transport to Johannesburg, Sandton and Pretoria.

Concurrently with these projects, the upper roadway at JIA is being re-aligned to pass to the west of the existing road outside the existing *brise soleil*. This will enable the incorporation of the existing roadway area into the international departures terminal space. This is expected to be completed by mid-2007.

Work on the main contract for another new multi-storey parkade, which will add 5 200 bays to existing parking facilities at JIA at a cost of R478 million, will be completed by the first quarter of 2008, with the first stage being brought on stream before the end of 2007.

On the airside, work on the runways and taxiways will begin shortly. This involves a total refurbishment of the second runway, while at the same time constructing new rapid exit taxiways to enable aircraft to clear the runway more quickly and thus allow more aircraft movements per hour, effectively increasing the capacity of the runway infrastructure.

All these projects amount to a total capital expenditure of some R3,99 billion before 2010. However planning is already under way for the longer-term expansion of the airport. This Master Plan is in the final stage and will define ultimate capacity and provide guidelines for the ultimate development of the airport.

**CIA**

At CIA work has begun on the new R900 million terminal, to be called the New Terminal 2010, which will integrate the new domestic terminal and the expanded existing international facility, with a centralised processing facility for check-in and arrivals for both domestic and international passengers. The overall effect will be to consolidate the existing two terminals into a single passenger processing unit for both domestic and international passengers that will have sufficient capacity until 2015. This development is scheduled for completion by the third quarter of 2009.

The first multi-storey parkade with an additional 1 500 bays was completed at the beginning of 2006 and work has already begun on the second, which will be completed by the end of 2007 and will add another 1 500 bays.

At Durban International Airport (DIA) passenger growth in the short term will continue to be catered for. DIA will be decommissioned in early 2010 when the new international airport at La Mercy comes on stream.

Capital development is not confined to the international airports. The national airports, which are experiencing enormous growth in domestic passenger travel, are also being upgraded.

**NATIONAL AIRPORTS**

George Airport is currently being expanded with a new arrivals area containing two longer baggage carousels and the complete remodelling of the rest of the terminal at a total cost of R37 million.

Work at Bloemfontein will be commencing soon with the main re-configuration works including renovations at a total cost of about R30 million. A start has already been made by moving the ACSA offices from the ground floor to the first floor.

East London will begin its terminal expansion and remodelling in the near future, after the existing ATNS control tower has been re-located.

Planning work is also under way at Upington to create a facility suitable for the long-term parking of mothballed aircraft.

Developments in ACSA's network of airports are well on track and will enable it to meet the needs of the influx of visitors and tourists around 2010, and provide them with the world-class service they are entitled to expect.

With the planning that has gone into the infrastructure upgrades at its airports, ACSA will be well placed to continue to deliver on its promise to the people of South Africa long after the World Cup is over.

# REVIEW OF OPERATIONS – INFORMATION TECHNOLOGY

**INFORMATION TECHNOLOGY**

Airports Company South Africa (ACSA) has earmarked an initial R150 million for Information Technology infrastructure and systems over the next three to five years. This investment in IT is, without doubt, critical for the realisation of the Company's vision to become a world leader in airport operations. In addition, the investment in IT is absolutely essential if ACSA is to continue to fulfil its mandate to the government and people of South Africa by operating efficient airports which support the country's business and tourism needs.

Importantly, the project involves far more than a simple computer upgrade. It involves the total transformation of ACSA's IT set-up. It is a huge, extremely complex project that is being undertaken to ensure the long-term financial and operational health of the Company.

ACSA's growth has accelerated exponentially over the past few years. At the same time, technology – and particularly IT – has been developing and changing. Sophisticated businesses have become almost totally reliant on IT to remain competitive and effective. Airport operators are no different.

In 2004, ACSA commissioned a study to investigate just how well its IT capability would support the Company's business plans. This study revealed that the then ACSA IT environment would be sustainable only in the short term. It also highlighted a rapidly widening gap between what the Company needed from IT to deliver on its business objectives and to remain an effective organisation, and the ability of the current IT infrastructure to deliver on these.

It was clear that something would have to be done. The Company examined three options:

1. Business as usual – i.e. continue sweating existing IT assets, repairing and fixing as necessary. While this might work, there were significant risks to the organisation. In fact, maintaining the existing set of IT capabilities was not really an option in the medium to long term because this would continue to widen the gap between the business and IT.

2. Reinvest in IT significantly, but do so in the most cost-effective way by centralising IT as much as possible. This option recognised that trying to introduce the level of IT ACSA will need in the future at each individual airport, could be prohibitively expensive. In other words, initiating an IT renewal programme would:
   - Significantly enhance or replace the current systems;
   - Enhance the Company's operational reporting capability;
   - Provide a management information system;
   - Introduce a flexible integration layer;
   - Establish and maintain a common data repository;
   - Rationalise the number of application versions and the number of applications; and
   - Establish ACSA-wide IT governance and budgets.

3. Transform entirely. Recognise that in order to achieve its vision, ACSA would have to transform its entire business operation – using technology to support the transformation process. Going the transformation route would entail:
   - Rationalising and streamlining the processes in the ACSA operational environments;
   - Aligning ACSA-wide IT applications with operational environments;
   - Ensuring that data and information is captured, processed and interpreted in a consistent way across the Company;
   - Aligning these processes with common ACSA-wide business Intelligence IT applications; and
   - Maintaining consistent service oriented architectures across ACSA.

The ACSA Board and Executive team chose the third option.

In June 2005 ACSA commissioned a 'business driven' IT strategy study to develop a 'blueprint' of what the ACSA IT environment should look like in three to five years' time, as well as to produce a roadmap for migrating to this environment.

Over a period of three months, key individuals within ACSA met with independent business and IT consultants. They discussed their expectations – how they expected IT to support them in their jobs; they revealed the problems that they were experiencing with the current IT set up; and gave insights into their wish lists for the future. Many made suggestions that they believed could improve ACSA's operations and efficiencies.

Based on these discussions, a comprehensive IT transformation strategy was developed. Named "ACSAlerate.IT", it incorporates the collective knowledge of ACSA employees as well as international research into airport operations best practice.

ACSAlerate.IT is an IT strategy designed specifically to support ACSA's business strategy.

As the review period came to a close, ACSAlerate.IT implementation began to gain momentum. However ACSAlerate.IT is a long-term project that will take three to five years to implement and the challenges will be enormous. It can be compared to trying to build an aircraft while already in flight: ACSA's airports have to keep operating even as their operations are being transformed.

The integrated transformational programme, which involves both the business and IT, will consist of three distinct phases:

- **Phase 1 – Focus** – involves consolidating and rationalising IT policies, procedures and governance; rationalising and standardising the ACSA applications portfolio; and introducing a consistent enabling technology platform. This phase has commenced and is proceeding well.

  Phase 1 projects are key to ACSA's future. They are the foundation stones of the entire ACSAlerate.IT programme. Securing the foundation of ACSA IT will ensure that the next phases will follow far more easily and ACSA's vision will be achieved.

- **Phase 2 – Optimise** – involves standardising business processes and supporting IT components wherever possible; and enabling non-standard business processes and supporting IT components where necessary.

- **Phase 3 – Transform** – involves extending business processes and supporting IT solutions into key customers, governing bodies and key suppliers environments; and focusing on value add solutions.

One of the reasons ACSA is devoting so much attention to building a solid IT foundation, is that the Company as a whole is moving towards a more dynamic business environment. Until now, IT across the organisation has been largely disparate, with operational units functioning independently. This resulted in many instances of wasteful duplication of systems and applications.

Now, it has been recognised that in order to respond to ACSA's business needs, IT needs to provide a set of loosely integrated capabilities which enable collaboration across the organisation. These capabilities must be both flexible and responsive and must therefore be made up of tightly coupled business and IT 'components' that provide a focused, responsive, variable and resilient operating environment.

In addition, the foundation being laid in IT must also look to the future where emerging technologies will increasingly be used to extend and optimise the value chain across ACSA and its key stakeholders. Technologies like RFID (Radio Frequency Identification), biometrics, self-service kiosks and wireless will play an increasingly important role in world-class airports. ACSA already employs some of these technologies as there are already wireless "hotspots" in its airports. Increasingly, however, these technologies will have to be integrated. At present, ACSA's hot-spots give passengers access to the Internet while waiting for their flights. But wireless networks – known as WLAN – within our airports could be used for much more.

RFID, for example, will be used for the rapid locating of late passengers, personalised service, advertising, access control, baggage tracing and for security along with biometrics.

ACSA is just at the start of its ACSAlerate.IT journey. Much of the work that is being done now will not be visible to the casual observer. However, the impact of what is being done will make itself felt in terms of improved operational efficiencies within the current financial year and into the future as ACSA continues ACSAlerating towards world-class airports.

# REVIEW OF OPERATIONS – AIRPORT OPERATIONS

The focus for the division this year as part of the balanced scorecard was to take overall control of the end-to-end processing of passengers through ACSA's airports from the time people arrive: parking, finding luggage trolleys, standing in queues, checking in, waiting for departure time and boarding the aircraft; followed by landing, retrieving baggage, finding trolleys, passing through immigration and customs and catching transport or finding a hire-car.

Much of that service is deficient because of a lack of a legislative framework to define service levels. ACSA's aim is to improve service all along the chain from end to end and it has to enter into service level agreements with the various stakeholders to provide high quality service in the areas of check-in, security, immigration and VAT refund.

The Company recognises the need to move away from the assertion that it is only responsible for certain elements in the processing system towards an acceptance of shared responsibility. All stakeholders have to commit themselves to achieving those standards. Even with the airlines, which are bound by IATA regulations relating to check-in times and so forth, ACSA would like to move towards greater shared accountability where prescribed service levels are not met.

Once these agreements have been made, ACSA will be in a far better position to inform passengers precisely what they can expect in terms of processing times and so forth.

The target is for passengers to have a seamlessly pleasant passenger experience through all the elements of the processes at airports by 2010. This means that service has to be not only prompt and efficient but also courteous and charming, from immigration and customs through to airport workers.

## SAFETY AND SECURITY

Safety and security, broadly stated, risk management, remain the Company's top priority.

Last year a process of upgrading access control began and new access permits at Johannesburg International Airport (JIA) have been issued. The permits data base, the rules governing the use of permits and awareness on the security aspects of our access permits have been improved. In addition, a number-plate recognition system with transponder technology for vehicles that have access to airside is being implemented with the aim of tightening security in that area.

In respect of safety, the roll-out of the safety palladium occurrence system which provides an accurate record of safety incidents throughout the airport network has been completed. This enables ACSA to measure where it stands in relation to international best practice and to zero in on areas where there is room for improvement.

Baggage pilferage remains a huge concern and ACSA is in the process of introducing technology to enable the airlines and the Company to keep better track of baggage as it goes through the various steps in the loading process.

The unfortunate SAA apron robbery incident on 25 March emphasised how important it is to strengthen security control around the vetting of people that have access to the sensitive areas of airports. The Company is currently in discussions with the SAPS and the National Intelligence Agency to implement more robust procedures to vet all staff that have access to such areas.

The particularly regrettable suspected involvement of some of Airports Company South Africa's (ACSA's) own staff in that episode suggests the need to be more rigorous in deciding who among even ACSA's staff can gain access to airside. This is also pertinent in combating baggage pilferage. The overall conclusion is that the personnel issues involved must be urgently addressed and potential criminals screened out as far as possible .

ACSA is extremely pleased at the response that it has received from the SAPS in improving general security at airports and it is working closely with them as they roll out plans to improve airport security. The fact that there are now more than 1 000 police officers at JIA indicates the response of the SAPS to the task of providing sufficient numbers, for example, and the JIA precinct has been identified as one of the most actively policed in South Africa.

While security infrastructure is certainly not shabby it is essential to keep up the quality of the people behind the infrastructure. Because ACSA manages in a virtual environment and does not have direct control over the cleaners or the baggage handlers, for example, it is vital to work with stakeholders to ensure that all their employees are adequately screened and that close checks and controls are kept on the people that they employ.

The Company is concentrating management energies and resources on ensuring that current security problems are radically improved long before the Soccer World Cup and on ensuring that concessionaires and stakeholders at the airports work with ACSA to meet the targets.

## MAINTENANCE AND ENGINEERING

The major project in this area is the overlay of the runways at Cape Town International Airport (CIA) and JIA, where the lifting of the asphalt at CIA last year caused disruptions for travellers. Work to upgrade the runway preceded that incident but it became clear that more preparation was needed.

At JIA the overlay of the primary runway has been completed and the Company will be overlaying the main landing runway at CIA. The plan to upgrade taxiways that can accommodate the new A380 generation of aircraft in 2007 is progressing well.

Common User Self Service kiosks (CUSS) to improve passenger processing are progressing satisfactorily. In addition to CUSS, ACSA is also working closely with the airlines on ticketless travel by having home and internet check-in.

# REVIEW OF OPERATIONS – COMMERCIAL SERVICES

The Commercial Services Division creates and manages non-aviation and international revenue streams for the Company. Activities handled by the Division include Airports Company South Africa's (ACSA's) retail, property and advertising undertakings and the management of airports other than those in ACSA's current network.

**COMMERCIAL SERVICES**

Retail revenue is derived from duty-free stores, retail stores, parking and car hire, while property income is derived largely from rentals. Advertising income is generated from many different forms of advertising opportunities granted to advertising concessionaires and advertisers both outdoors and inside ACSA's terminal buildings.

The remarkable growth of commercial revenue has contributed significantly to ACSA's financial success over the years, with the Commercial Division again performing ahead of budget in the financial year ended 31 March 2006.

With combined retail, advertising and property revenue rising by 11,2 percent to R867 million (2005: R763,2 million), commercial revenue contributed 43,9 percent of total Group revenues. In fact, the Division accounted for 70,3 percent of ACSA's headline net operating profit, before taking into account the effects of the lease smoothing adjustment.

Revenues from advertising, car parking and property grew particularly strongly. Continuing the trend of the previous year, advertising income growth was driven by new concepts and ad hoc campaigns while car parking benefited from the strong growth in domestic traffic associated with the growing popularity of low cost carriers.

**RETAIL**

Retail revenue grew by 6 percent to R310,2 million. This growth was not as strong as the other commercial revenue streams mainly due to the revision of the rental agreement with the main duty-free operator. Notwithstanding future growth in passenger numbers and the recent strengthening of the US Dollar, the efforts of the review period are coming to fruition. ACSA is currently realising an international spend per passenger of US$38, comparable to the best airports in the world, with major developments expected to fuel this even further by 2010.

The Northern Pier Development is enjoying immediate priority. The first retail milestone of this project will be the opening of 1 100m$^2$ of brand new retail space in January 2007. The area will comprise a retail node with 900m$^2$ of food and beverage space and a 100m$^2$ South African speciality retail outlet. This node will be conveniently located at the start of the pier.

The two ends of the linear pier will accommodate two more large triangular nodes, the first three of which have become iconic features of Africa's busiest airport since their introduction to the airside façade six years ago. Each of these new nodes will house a satellite food and beverage outlet to cater for the needs of passengers waiting to board their flights.

The primary extension – a 3 000m$^2$ addition to Johannesburg International Airport's (JIA's) current duty-free mall – will open in January 2008. It will showcase 20 new stores with a wide range of retail experiences including, but not limited to, apparel, luxury goods, convenience, core duty-free, food and beverage, forex and banks and South African speciality outlets. This extension will stretch from the existing Indaba store all the way north to the start of the new pier. A tender process will be launched in the second quarter of 2007 to procure business partners.

This R53 million project will result in a 60 percent increase in retail floor space, from roughly 7 000m$^2$ to 11 000m$^2$. The number of stores will increase from 30 to approximately 52.

In addition to the Northern Pier development, the Retail team is also focusing on the new Central Terminal Building, which will accommodate an exciting landside retail mall, reflecting an interesting new approach to airport retail. The 4 000m$^2$ facility, to be developed at a cost of R118 million, will be home to approximately 50 stores, including a substantial amount of speciality retail, aimed at meeting the shopping needs of international and domestic arriving passengers, as well as meeters and greeters. Stores will open in phases from 2008 onwards.

On the cards for Cape Town International Airport (CIA) is a new domestic retail environment catering for arriving and departing passengers and increasing the current 4 000m$^2$ of retail floor space by about 1 200m$^2$ to nearly 5 400m$^2$. This project is scheduled for completion at the end of 2009.

In addition to these major airport developments, the Retail team is exploiting technology and global trends to generate growth. The team's continued focus on technology enhancement is expected to reap substantial benefits well ahead of 2010. An immediate project involves the updating of point of sales (POS) systems. This will enable ACSA to receive sales information by retail category on a daily basis, thereby enabling the Company to manage its turnovers and revenues more effectively.

In line with updating these POS systems, ACSA is investigating the implementation of an electronic pre-order service that will allow travellers to order directly from retail outlets ahead of their scheduled flight. Such a value-added service will not only offer passengers unprecedented convenience, it will also significantly enhance the airport shopping experience of time-poor travellers.

ACSA's wireless technology strategy, its partnership with Internet Solutions and MWEB, and alliances with an extensive array of key players in the hospitality industry have reaped exceptional rewards for the Company.

Wi-Fi hotspot branding was introduced to the travelling public in April 2005 through a nationwide roll-out that has since secured an increased awareness and subsequent usage of this essential service among travellers. The popularity of the service has dwarfed expectations, resulting in budgeted investment returns being exceeded. In the year under review sales and usage at JIA doubled compared to that achieved in the previous financial year.

Results were even more impressive at CIA and Durban International Airport (DIA). This can be attributed to the later roll-out at these airports, and the powerful impact of a strong brand strategically incorporated into airport signage, with high visibility at key seating areas. At CIA and DIA respectively, usage was five and nine times higher than that achieved in the previous financial year. Seeing Wi-Fi usage at ACSA's three international airports in context, usage at JIA is four times higher than that at CIA, and 11 times higher than that at DIA. Furthermore, the number of partnership Wi-Fi hotspots across South Africa has more than tripled, with ACSA's three international airports largely acknowledged as providing the stimulus for growth in this environment.

Also during the year in review, retail carts were introduced at ACSA's three main airports to engage on the floor with travellers and to test product offerings of prospective tenants rather than using retail space in the stores to do so. The retail carts have also been an excellent vehicle through which the retail portfolio could successfully contribute towards black economic empowerment.

In addition, the Division's well-tried process of selecting new partners for the retail portfolio remains in place. This requires ACSA retail partners to meet BEE criteria while satisfying previous trading density criteria and what is referred to as "best of breed" criteria. The "best of breed" criteria require retail partners to be either one of the top three brands by sales in their category globally or locally, or able to demonstrate "world best" retail execution. Reviews of tenant rentals are ongoing and should result in the Company deriving better value in future.

Naturally a well-executed marketing plan supported the objectives of the portfolio throughout the year. ACSA's retail marketing strategy has at its core five strategic focus areas: "active selling", which is aimed at converting browsers into shoppers, "winning" the South African passenger, fuelling core duty-free and luxury goods sales and promoting the purchase of South African speciality products.

The "active selling" strategy was largely realised through a series of win-a-car competitions whereby proof of purchase secured shoppers' entry. With South African travellers continuing to dominate ACSA's customer base, the "winning" the South African passenger strategy remained an area of intense focus with discounted offers marketed extensively to South Africans. A key partner in the success of this strategy has been the Association of South African Travel Agents (ASATA) and its far-reaching membership base. Throughout the year structured promotions and discounted offers, supported by on- and off-airport advertising, were used to advance core duty-free and luxury goods sales. South African speciality products were regularly showcased through demonstrations and exhibitions which could be directly linked to increased sales.

In the spirit of Christmas, and coinciding with its 14-store revamp of JIA's Duty-Free Mall, a "Come Early for Christmas" competition was run from 25 October to 25 December, the aim of which was to encourage earlier arrival at ACSA's three international airports.

When looking at international airport retail trends, it is interesting to note that the fastest growing travel retail sector is arrivals duty-free, which allows international arriving passengers to purchase duty-free products at their arriving airport prior to their proceeding through Customs. As the primary travel retail player on the African continent, ACSA is keen to play a role in unlocking value for all of its stakeholders through this retail concept, ultimately also enhancing the airport shopping experience for travellers. ACSA is currently working closely with National Treasury and the South African Revenue Services (SARS) in order to realise legislation that will allow arrivals duty-free purchasing at its three international airports.

In the year ahead ACSA will continue to focus on winning travelling shoppers by maintaining the course already mapped out and intensifying its efforts. A well-considered marketing calendar will provide ample opportunity to showcase all product categories, and in particular South African speciality products, through "active selling" vehicles such as industrial theatre, interactive promotional activity, live performances, exhibitions and demonstrations.

The relationship with the South African travelling public will gain new momentum through a strengthened partnership with ASATA and its membership base, and by enhanced interacting with the South African traveller.

**PARKING**

Revenue from parking increased by 14,9 percent to R187,6 million. This rise has largely been generated by an increase in the average parking stay, partly as a result of passenger growth due to the success of low cost carriers.

In April 2006 ACSA opened a five-storey, 2 000-bay parkade at CIA, nearly doubling the airport's parking capacity. In addition, ACSA is erecting a multi-storey parkade at DIA. The first phase of this development, consisting of 600 new parking bays, is due to come on stream in September 2006, with the balance due at the end of August 2007.

In light of the tremendous demand for parking at JIA, a second parkade of 5 000 bays is planned for completion in 2008. In the interim, ACSA has created two temporary facilities to address demand. The first is a park-'n-ride facility close to the Super-south gate (close to Emperor's Casino) where users can enjoy a far lower parking tariff and catch a convenient shuttle bus to the airport. The other consists of additional short-term drop-off points opposite the international arrivals terminal, further aimed at encouraging quick turn-around during peak hours.

Security in the existing multi-storey parkade has improved following the successful installation of the number-plate recognition system.

**CAR RENTALS**

Revenue increased by 9 percent to R90 million, mainly as the result of the consolidation of all the car rental kiosks into one area at most airports, principally the national airports. A similar strategy will be applied at DIA in the new financial year by consolidating all the outlets into one building.

The industry continues to carry the heavy burden of fierce competition that has resulted in daily rental rates dropping dramatically, despite the enormous growth in passenger numbers.

**ADVERTISING**

Advertising revenue grew by 20 percent to R98,2 million. This growth was mainly the result of implementing various innovative solutions developed in response to the gradual decrease in space available for traditional format advertising, such as lightboxes. The main innovations were in using pillar wraps, contravision and hoardings at building sites.

Construction activities aggravate the shortage of suitable advertising space since they necessitate the removal of existing billboards. When the major construction projects have been completed, there should be a resumption of intensive advertising.

These challenges have, however, given rise to a strategy of value optimisation, whereby ACSA will consolidate its advertising space into bigger, more impactful – albeit fewer – advertising structures in the airport environment. Furthermore, ACSA is moving towards creating opportunities for brand reinforcement by setting up brand zones or areas that will have naming rights for specific brands so that advertisers can establish brand dominance. ACSA believes that this will increase the number of large advertising spenders who typically seek such opportunities.

In addition, ACSA is seeking to enhance the airport retail shopping experience for travellers by establishing advertising sites beyond the security check-points where passengers will be able to meet and interact with advertisers in specially created promotional lounges.

**PROPERTY**

The Property Division experienced a very good year in which it made considerable progress in realising its vision of building a profitable, sustainable property business for ACSA. Revenue for the year before rental smoothing adjustments grew by R32,4 million to R192,1 million or by 20 percent compared with the previous year.

In addition, the Division executed transactions during the review period that will realise infrastructure and property improvements to the value of in excess of R571 million on ACSA land.

Supporting its vision of realising a sustainable property business for ACSA, the Division established property partnerships with developers able to provide ACSA with a competitive advantage in exploiting non-core land on the outskirts of ACSA's airports through the development of a variety of property projects.

At CIA, ACSA partnered with a developer to develop a distribution centre for Excel Contract Logistics on a stand adjacent to the Pick 'n Pay site. In return for a 40-year lease on the land and an up-front rental payment of R6,25 million, ACSA's partners assume the risk, fund the R56,5 million capital cost of construction and will pay a rental to ACSA based on 15 percent of net rentals after year 13 of the lease. The developer has completed phase 1 of the development and will soon commence with extensions.

At the same time, Pick 'n Pay announced their requirement for a substantial extension to their existing premises and ACSA will be investing a further R46 million to meet Pick 'n Pay's future needs. The project is to be completed in October 2006 and ACSA will be recovering the investment in the remaining period of the lease, over some nine years.

ACSA has also entered into a 40-year lease with a developer, for the establishment of a neighbourhood shopping centre and a value mart-type operation on a site close to the Pick 'n Pay development. A lease premium of R7,4 million was received with a further R9,3 million payable in July 2006, the lessee being responsible for 10,5 percent of gross rentals from year 13 onwards.

An agreement concluded with a listed property entity has resulted in the establishment of a freight park for smaller freight businesses. The terms of the transaction involve an up-front lease premium payment of R4,9 million and rentals amounting to 14 percent of gross rentals from about year 13 of the 45-year lease period.

ACSA is negotiating with car-hire companies for sites some distance from the terminal. Agreements have already been reached with Imperial and Hertz and negotiations with Avis are expected to begin shortly.

In Precinct 2 of CIA, which had been quiet for some time, ACSA concluded three large deals, setting up long-term partnerships that will have created improvements estimated at R257 million on ACSA land.

This will pay consistent annuities for the next 40 years at minimum risk to ACSA, with full income and rights accruing to the Company thereafter. The market has expressed keen interest in the remaining land in the precinct, amounting to some seven hectares, and ACSA expects to be able to finalise development plans in the current year.

ACSA is also exploring various development options in respect of the Office Oval precinct at CIA.

The much-needed development of a de-grouping and logistics precinct at JIA resulted in ACSA entering into a joint venture agreement with a listed group with particular expertise in the logistics sector. During the year under review, the first phase of this development – worth nearly R33 million – was completed on a 2-hectare site. Construction on the second phase, with an estimated value of R46 million for phase 1 of phase 2 on 5,5 hectares, has commenced. The unlocked value of land introduced to the joint venture amounts to R11 million.

Also at JIA, ACSA entered into an agreement with a specialised property division of one of South Africa's largest financial institutions to develop a 17-hectare logistics park for the RTT group on the southern side of the airport precinct. ACSA received an up-front rental premium payment of nearly R21 million for this project. The estimated cost of improvements is R215 million and from year 15, ACSA will receive rental payments equivalent to 15 percent of rentals over the 40-year period of the lease.

Construction of the R19,8 million, 122-exhibitor Absa International Trade Bureau, which is conveniently located opposite the international terminal at JIA, commenced during the year. The development return is underpinned by a long lease concluded with a South African private sector international trade promotion company with extensive experience in international trade. The project enjoys the support of trade and investment agencies and industry associations around South Africa and is scheduled to open in December 2006.

The focus on DIA's eastern precinct continues, with the project having been scaled down to 100 hectares after having taken into account the requirements of the eThekwini Municipality. A decision on the re-zoning application is expected in October 2006. Anticipating that this application will be successful, ACSA has already commenced talks with Toyota and the KwaZulu-Natal Province to create a 50-hectare Durban Automotive Supplier Park in the eastern precinct to serve Toyota.

ACSA realised R7 million net from the sale of a redundant, unserviced site in Prospecton, DIA to a motor dealer.

Looking ahead, ACSA awaits the revised master plans for the development of JIA and CIA, from which further commercial opportunities will be identified to be pursued either for ACSA's own account or in partnership with other developers.

At the smaller domestic airports, such as George and Port Elizabeth, ACSA will be concentrating on niche developments for local operators.

### AIRPORT MANAGEMENT SOLUTIONS

The GVK–SA Consortium was selected as the successful bidder for the Mumbai International Airport concession on 4 February 2006. As a result, ACSA acquired a 10 percent shareholding in Mumbai International Airport Private Limited (MIAL) together with Bidvest (27 percent) and their Indian partner GVK (37 percent), with 26 percent being retained by the Airports Authority of India. ACSA provides technical support to MIAL through an airport operator agreement.

MIAL is a strategic investment for ACSA from which good returns will be realised in the medium term in one of the world's highest growth markets. Equity exposure is limited by the revenue share transaction model, highly geared non-recourse debt financing and the shared till regulatory regime.

Having won the bid to modernise and upgrade Mumbai International Airport has placed ACSA on the global map in this section, which will generate further opportunities to grow and expand.

In pursuance of its quest to be a world leading airport business, in the first quarter of 2006 ACSA submitted an Expression of Interest (EOI) in bidding for the 25-year concession to design, finance, build, operate and transfer Abuja International Airport in Nigeria. Based on the pre-qualifying documents, ACSA was named as one of the three short-listed entities who qualified to participate in the bid process. At the time of writing this report, a due diligence exercise to establish the viability of the project was in progress.

There have been a number of recent successful transactions concluded in the airport sector globally, particularly in Eastern Europe and Asia, and consequently the current outlook for opportunities in airport privatisation is positive, especially in the developing world, and ACSA is well placed to participate in these.


TIMEX
LORUS


Wi-Fi
hotspot
MWEB


VERSACE
LANCO

In order to mobilise the energies, abilities and loyalties of employees most effectively in achieving the Company's mission and vision for the benefit of all stakeholders – notably the shareholders and the public of South Africa – the Division pressed ahead with building and securing the six pillars of its human resources management strategy.

The six pillars are:

- Embedding the Airports Company South Africa (ACSA) culture, which is built around the values of passion, results, integrity, diversity and excellence (PRIDE);
- Managing the talent and capabilities of employees;
- Fair reward and recognition;
- Building the ACSA team;
- Improving performance; and
- Managing transformation.

The values characterising the Company's corporate culture emerged during the course of the Company-wide customer care training programmes for staff implemented some years ago. The Division seeks to stress the importance of employees living, communicating and reinforcing the culture.

#### MANAGING TALENT

The group talent management programme and workplace skills plan (which incorporates a group training and development plan) form the backbone of ACSA's training, development and education practices and are closely interwoven with succession planning.

The Company's annual training report submitted to the Transport Education and Training Authority, revealed a 92 percent achievement of targeted planning initiatives. As a result the Company qualified for the full NQF rebate.

ACSA has materially strengthened the Aviation Training Centre and broadened its curriculum to emphasise aviation safety, security, fire and rescue services, customer service and general behavioural skills. The academy has now been named the accredited ICAO Aviation Security Training Centre for the whole of Africa.

ACSA is also implementing a fully fledged women's empowerment programme in the context of the competencies, experience and technical skills required by the aviation sector.

The success of the Company's engineering training programme was confirmed when two young black learners completed their course three months earlier than scheduled and were appointed aviation planners, one at Johannesburg International Airport (JIA) and the other in corporate head office.

ACSA also invested funding more than 10 engineering and other bursaries for previously disadvantaged people who are studying towards engineering degrees.

ACSA's ongoing customer service training programme, Project Soaring Service, concentrates on areas of behaviour and performance measured by IATA that impact directly on leisure and business passengers' overall perceptions of service and the courtesy and helpfulness of all airport staff.

The training is directed at all our staff, supervisors and managers but with specific focus in the areas of security, safety, customer relations, baggage trolley management and car parks. On-the-job tests of all groups showed a 91 percent adherence to desired behaviour after the training interventions. More importantly, an independent service standards survey showed significant gains in service orientation among employees. This is an important step towards entrenching top-class customer service as a central feature of ACSA's corporate culture.

#### FAIR REWARD AND RECOGNITION

The Company's conditions of employment and related benefits are based on principles of equality and fairness. An independent review of ACSA's remuneration and benefits policies shows that they compare well with, and often exceed, best practice. Salaries are market related and based on objective criteria connected with work performance. There is no discrimination based on race, gender or creed. The Company's approach to remuneration recognises the value of competencies, technical skills, experience and performance at the various organisational levels.

The Company rewards performance excellence in terms of an incentive remuneration scheme that operates as a form of variable pay in the discretion of the Board.

In order to remain competitive in the marketplace, attract high-calibre employees and entrench a corporate performance culture, ACSA implements a standardised employee award system. A variety of rewards (eg flight tickets, home appliances, gift vouchers) recognise excellent performance by individuals and teams in desired behaviour sectors such as customer focus, peer relationships, perseverance, problem solving, drive for results, listening, organising, learning on-the-fly, integrity, trust and approachability.

### BUILDING THE ACSA TEAM

"Building the ACSA team" describes a cluster of management strategies and initiatives aimed at creating and nurturing teamwork, encouraging high levels of motivation and performance, and generating satisfaction, loyalty and commitment.

### EMPLOYEE RELATIONS

Relations with employees are managed at local and national levels and have historically been cordial and constructive. During the year under review the National Education, Health and Allied Workers Union (NEHAWU) emerged as the trade union representing the majority of the ACSA workforce.

### EMPLOYEE WELLBEING PROGRAMME

ACSA operates an employee wellbeing programme to provide confidential and professional counselling and advice services to assist employees and their families with personal and work-related issues. The Company has implemented an intensive communication process to support the programme. ACSA believes that the programme has a real effect on the personal welfare of our employees, improves their lives and contributes to increased productivity.

### HIV/AIDS MANAGEMENT

ACSA takes the HIV/AIDS epidemic very seriously and has geared up its efforts both to minimise the numbers of people infected with HIV and to prolong the lives of those who have already contracted it.

The Company has created an environment in which employees have access to:

- Shared information about HIV/AIDS;
- Supplementary and therapeutic medications through subsidised medical aid schemes; and
- Counselling services provided by peer educators and an external organisation.

ACSA began a programme of voluntary counselling and testing for HIV/AIDS among employees in 2003. As a result of a concerted drive to ensure that ACSA staff discover their status and start living positively, more than half the Company's employees have come forward for voluntary testing.

A milestone in ACSA's HIV/AIDS programme was reached in April 2005, when an employee, Busi Khambule, showed tremendous courage by voluntarily disclosing her HIV status to the Company and volunteering to share her experience of living with HIV with other employees. As a result, ACSA employees were able to see how the Company deals with issues of discrimination and stigma, as well as support and care. She has since passed on, but her courageous example inspired others to come forward.

Now the Company has prepared a DVD of the lives of three of our employees who have subsequently disclosed their HIV status to be used in the general campaign to persuade people to be tested. This coincides with a general upgrading of the whole HIV/AIDS drive, in which the Company has engaged the Careways Group in a three year contract to partner with ACSA in driving it.

### IMPROVING PERFORMANCE

Over recent years the Company has designed and implemented an electronic performance management system that manages performance through performance contracts with targets linked to the business strategy and allows for improving performance by management, training and development interventions.

The main objective is to improve individual performance so that corporate performance also improves. Detailed business plans linked to the approved business strategy and individual's performance contracts have been created for every business unit, noting the integration of the balanced scorecard methodology.

### MANAGING EMPLOYMENT EQUITY AND TRANSFORMATION

Transformation is a strategic priority for ACSA and the Company has developed detailed policies and procedures that are fair, transparent and effective in ensuring that transformation objectives are met.

The National Employment Equity/Training and Development Forum of ACSA, noting guidance from the ACSA Board and Executive Committee, continues to lead employment equity, transformation and training and development priorities. In addition to achievement of set employment equity targets qualitative audits are conducted, ensuring that the following areas are dealt with in a fair and equitable manner:

- Recruitment, selection and appointment
- Remuneration and employment benefits
- Terms and conditions of employment
- Training and development
- Promotions and transfers
- Performance management
- Working environment and facilities

Set employment equity targets were achieved earlier than anticipated ensuring that ACSA becomes a truly representative employer. Revised target were developed ensuring that the ACSA workforce is reflective of the economically active population.

### TOWARDS BEING AN EMPLOYER OF CHOICE

In the course of furthering the process of developing a performance driven and caring culture during the year, the Company launched a number of projects in the workplace aimed ultimately at ACSA becoming an employer of choice.

As a start, ACSA employees participated in an Employer of Choice survey, using the Deloitte & Touche/Financial Mail survey as a basis, to determine perceived shortcomings in the Company's employment and management practices.

After the leadership team had analysed and discussed the results of the employee survey, it mapped out a plan for how to move forward, within the context of the six HR management pillars. The leadership team then defined the way forward in terms of the management interventions required to further the drive to become an employer of choice and in this process designed a concept called **Aviate**, which encapsulated the commitment of the leadership team to shape their relationship with staff by becoming more: **a**ccessible, **v**isible, **i**nclusive (i.e. ensuring that staff understand what the Company is doing and why), **a**ccountable (for delivering on promises), **t**ransparent, **e**mpowering (training and giving people the authority to do what they are responsible for).

This management initiative was launched and communicated during the course of a roadshow to employees countrywide, which took the form of a "live" TV broadcast during which the Managing Director was interviewed by renowned TV personality, Nimrod Nkosi.

The roadshow was focused on several key issues, one of which was for the ACSA 11 (11 of our employees involved in our day-to-day operations who went on the mission to Germany to see at first hand how airports host a Soccer World Cup event) to share what they had learnt on their visit with the rest of the ACSA employees.

Other aims were to communicate and discuss ACSA's "way forward" as guided by its mission, vision and values; to examine and debate ACSA's goals and the vital part that employees play in reaching them; to report back on the results of the Employer of Choice Survey and identify key areas for action; and finally to underline the power of diversity among ACSA employees.

The roadshow was presented to 1 500 people in 13 shows at 13 airports.

### ACSA EMPLOYEES TAKE TO THE SKIES

The Managing Director launched the Company's "Take to the Skies" campaign by awarding air tickets to 18 employees. The aim of the campaign is to expose ACSA employees, many of whom have never flown before, to experience at first hand what the Company's business is all about and to see how the airport experience is a vital part of the travelling experience, ensuring improved delivery to our passengers.

Airports Company South Africa (ACSA) is committed to continually enhancing its corporate governance processes in line with international best practice in a manner that facilitates the development and management of world-class airports whilst at the same time ensuring that ethical decisions are taken in terms of the regulatory framework. ACSA is registered as a public company in terms of the Companies Act and is listed as a major public entity in terms of Schedule 2 of the Public Finance Management Act (PFMA).

### BOARD OF DIRECTORS

Control of the Company is vested with the Board of Directors, which decides on all material matters affecting the Company. It currently consists of a Chairman, Executive Directors (including the Managing Director) and Non-Executive Directors nominated by the majority shareholders in terms of the shareholders' agreement. The Board meets bi-monthly (i.e. six times a year) to determine policy and deliberate on material aspects of the business as well as to evaluate the actions of the Executive Management team.

The Board is well-balanced, containing significant skills and experience in finance, audit and risk management, administration, organisational structure and human resource management, coupled with wide experience and expertise in the airport management sector and retail and property development. The calibre and number of Non-Executive Directors ensure that their views carry significant weight in Board decisions so that no individual has unfettered power to make decisions. The Directors have full and free access to Company information via the Company Secretary and also have the right to seek independent professional advice.

At every Annual General Meeting, one third of the Non-Executive Directors retire but are eligible for re-election. The key criterion for Board appointments is the expertise that the nominee is able to contribute including the achievement of a balance of skills in the Board. Where there is a lack of skills in committees, the Nominations Committee recommends to the Board the appointment of co-opted members to the committees. ACSA has also introduced an induction programme for new Board members.

The Board delegates responsibility for the overall management of the Company to the Managing Director, whose action it oversees and who is empowered to delegate responsibilities to the Executive team.

The Company Secretary is appointed by the Board of Directors and administratively reports to the Managing Director. She ensures that procedures, rules and regulations are followed and is responsible for ensuring compliance with the principles of good corporate governance as enunciated in the King Reports and the PFMA.

The attendance of Directors at meetings of the Board during the financial year was as follows:

| Directors | Scheduled meetings | | Special meetings | |
|---|---|---|---|---|
| | Number of meetings | Atten-dance | Number of meetings | Atten-dance |
| **T R A Oliphant** (Chairman to 1 September 2005) | 3 | 3 | 3 | 2 |
| **F A Sonn** (Chairman from 2 September 2005) | 6 | 6 | 5 | 2 |
| **C Bassetti #* (ADR)** | 5 | 5 | 4 | 1 |
| **A Belardini # (ADR)** | 5 | 4 | 4 | 3 |
| **F di Giovanni # (ADR)** | 5 | 2 | 4 | 3 |
| **N N Gwagwa** | 6 | 6 | 5 | 3 |
| **M W Hlahla *** | 6 | 6 | 5 | 5 |
| **B Molefe (PIC)** | 1 | 1 | – | – |
| **T B T Mparutsa *** | 6 | 6 | 5 | 5 |
| **S Sithole** | 6 | 4 | 5 | 4 |
| **B M Stocks** | 6 | 6 | 5 | 5 |
| **W C van der Vent (PIC)** | 1 | 1 | – | – |

*# Italian*
** Executive Director*
*The ADR Representative Directors resigned with effect from 21 December 2005*
*The PIC Representative Directors were appointed with effect from 28 February 2006*

### EXECUTIVE DIRECTORS

The Company's two Executive Directors are the Managing Director and the Finance Director.

### BOARD COMMITTEES

The Board has established six committees to focus on key functional areas of the core business of the organisation where special expertise is required. With the exception of the Executive Committee, they are chaired by Non-Executive Directors and the majority of members of each committee are Non-Executive. The Managing Director attends meetings of the committees and the Company secretariat provides secretarial services to all committees.

### AUDIT COMMITTEE

The committee meets four times a year to consider the financial statements, accounting policies, interim financial data, safeguarding of assets, effectiveness of the internal audit function, performance of the external auditors and the findings of the internal and external auditors. The committee is responsible for reviewing and monitoring financial risk management, including interest rates, investments, insurable risks, as well as approving the internal audit charter and plans and monitoring compliance. The Audit Committee also has a governance role in that it monitors ethical conduct of the Company and its Executives and Officials.

All the members, including the chairperson of this committee, are Non-Executive Directors. Both external and internal auditors have unrestricted access to the Chairman of the committee and are invited to attend meetings of the committee. The Finance Director and Managing Director are also invited to attend Audit Committee meetings. The appointment and removal of the Group Executive Manager: Internal Audit is a matter for Audit Committee recommendation. The two joint external auditors are appointed or reappointed at the Annual General Meeting following Board recommendation as advised by the Audit Committee.

Ms Janse van Rensburg, a treasury and financial expert, is a co-opted member of the committee.

The attendance of the members of the committee at meetings held during the financial year was as follows:

| Members of the Audit Committee | Number of meetings | Attendance |
|---|---|---|
| **B M Stocks** (Chairperson) | 4 | 4 |
| **M Janse van Rensburg** + | 4 | 4 |
| **S Sithole** (from 6 December 2005) | 1 | 0 |
| **F A Sonn** (up until 5 December 2005) | 3 | 1 |
| **R Tommasetti** # | 3 | 2 |

*# Italian (Resigned with effect from 21 December 2006)*
*+ Co-opted member*

### THE HUMAN RESOURCES, TRANSFORMATION AND REMUNERATION COMMITTEE

This committee meets four times a year to consider matters relating to employment equity, human resources policy and procedures, the remuneration of the Executives and alignment with organisational remuneration policies taking into account market trends and best practice benchmarks. It is further tasked with the responsibility to ensure that the transformation strategies and objectives of the Company are integrated into the Company's total business strategy and that employment practices and conditions of service are implemented that promote eradication of discriminatory practices and provide previously disadvantaged individuals with support to enable them to benefit from career opportunities. It further reviews the improvement of organisational efficiency by the setting of measurable and achievable targets and monitors statutory compliance.

The committee is chaired by a Non-Executive Director and, over and above the Managing Director, the Financial Director and Group Executive: Human Resources are invited to attend the meetings of the committee.

The attendance of the members of the committee at meetings held during the financial year was as follows:

| Members of the Human Resources, Transformation and Remuneration Committee | Number of meetings | Attendance |
|---|---|---|
| **S Sithole** (Chairperson) | 4 | 4 |
| **A Belardini #** | 3 | 0 |
| **N N Gwagwa** | 4 | 3 |
| **F A Sonn** (up until 5 December 2005) | 3 | 2 |

*# Italian (Resigned with effect from 21 December 2006)*

### RISK MANAGEMENT COMMITTEE

This committee meets four times a year to focus on the management of enterprise wide risks of the Company within the risk management framework and focuses specific attention on safety and security risks facing the Company.

The attendance of the members of the committee at meetings held during the financial year was as follows:

| Members of the Risk Management Committee | Number of meetings | Attendance |
|---|---|---|
| **N N Gwagwa** (Chairperson) | 4 | 4 |
| **F di Giovanni #** | 3 | 0 |
| **B M Stocks** | 4 | 4 |

*# Italian (Resigned with effect from 21 December 2006)*

### COMMERCIAL COMMITTEE

This committee which is chaired by a Non-Executive Director meets at least four times a year and deals with the multiple issues of profitable development of ACSA's significant real estate resources, retail and advertising portfolios to enhance shareholder value and improve customer service. The committee is responsible for monitoring and reviewing the role of the commercial division in the Company, approving its strategic plans and identifying opportunities for black economic empowerment within the commercial business of the Company. The Group Executive: Commercial and senior staff within that division are invited to attend committee meetings.

The attendance of the members of the committee at meetings held during the financial year was as follows:

| Members of the Commercial Committee | Scheduled meetings | | Special meetings | |
|---|---|---|---|---|
| | Number of meetings | Atten-dance | Number of meetings | Atten-dance |
| **B M Stocks** (Chairperson) | 4 | 4 | 1 | 1 |
| **C Bassetti** # (Alt) | 0 | 0 | 1 | 1 |
| **A Belardini** # | 4 | 2 | 0 | 0 |
| **S Sithole** | 3 | 4 | 1 | 1 |

**NOMINATIONS COMMITTEE**

This committee was recently established and will meet twice a year to consider nomination of Board and Senior Executive appointments and matters relating to the effectiveness of the Board and its committees. The Managing Director is invited to attend the meetings of the committee.

The attendance of the members of the committee at meetings held during the financial year was as follows:

| Members of the Nominations Committee | Number of meetings | Attendance |
|---|---|---|
| **F A Sonn** (Chairperson) | 1 | 1 |
| **S Sithole** | 1 | 1 |

**EXECUTIVE COMMITTEE**

The Executive Committee, consisting of the two Executive Directors, Group Executives and General Managers of the airports, is chaired by the Managing Director. It is responsible for the day-to-day operations of the organisation as well as ensuring that Company strategies and Board directives are implemented.

**OTHER TERMS OF REFERENCE**

The Board adopted Terms of Reference for the Managing Director, the Board of Directors and the Chairman, which are aligned with corporate governance requirements contained in the regulatory framework. The Company believes that these Terms of Reference comply with the material requirements of the Board Charter.

**INTERNAL CONTROL**

Internal control comprises the methods and procedures implemented by Management to assist in achieving the objectives of safeguarding assets, the efficient and effective use of resources, preventing and detecting error and fraud, ensuring the accuracy and completeness of accounting records and the timely preparation of reliable financial information.

To fulfil its responsibility, Management maintains adequate accounting records and an effective system of internal control that minimises the possibility of fraud and error.

The internal controls and systems are designed to provide reasonable assurance as to the integrity and reliability of financial reporting and to adequately safeguard, verify and maintain accountability for the Company's assets.

Internal controls which are monitored throughout the Company are based on established written policies and procedures, implemented by trained and skilled personnel with appropriately designated duties.

**INTERNAL AUDIT**

The internal audit function, which is independent of Management, examines and evaluates the Company's activities with the objective of assisting members of Executive Management and the Board in the effective discharge of their responsibilities. This function evaluates and makes recommendations to improve the reliability and integrity of financial and operational information, systems of internal control, the means of safeguarding assets, the efficient and effective management of the Company's resources and governance processes and the conduct of its operations. The head of internal audit reports administratively to the Managing Director and functionally to the Chairman of the Audit Committee.

**SUSTAINABILITY**

Financial accounting, risk management and other issues related to sustainability – such as environmental management, black economic empowerment, employment equity, training and HIV/AIDS interventions, human resources policies and succession planning, are dealt with elsewhere in this report.

**COMPLIANCE WITH THE REGULATORY FRAMEWORK AND KING CODES OF CORPORATE GOVERNANCE**

A review of compliance with the regulatory requirements of the Airports Company Act, 1994, the Public Finance Management Act, 1999, and the Companies Act, 1973, has been conducted. It revealed no material deviations or incidents of non-compliance. The compliance monitoring systems in relation to employment, and occupational health and safety legislation are dealt with elsewhere in this report. A compliance review of the principles contained in the King Codes of Corporate Governance has revealed no material deviations from the principles read with the requirements of the Public Finance Management Act, 1999, and the Airports Company Act, 1993. Formalisation of a Board effectiveness evaluation has been completed and the adoption of a Policy on Declarations of Interest to manage and avoid conflicts of interest arising at Board and Executive Management levels has been adopted, which is over and above the provisions contained in the Employee Manual.

# CORPORATE CITIZENSHIP – RISK MANAGEMENT

## RISK MANAGEMENT

The Board accepts and acknowledges its overall responsibility for ACSA's systems of internal control, which are designed and implemented to safeguard shareholders' investment and the Company's assets.

The Company's overriding business objective is to increase shareholder value and it therefore approaches risk management and control from a shareholder value perspective. ACSA's risk assessment practice covers a far broader range of risks than the traditional risk categories.

ACSA operates an enterprise-wide risk management system, which is continually improved and enhanced at all operations. This system forms the cornerstone of ACSA's risk management activities. Strategic risks and opportunities arising from changes in ACSA's business environment are regularly reviewed by the office of the Managing Director and discussed by the Board.

A key element of the risk management process is ACSA's risk profiling methodology. The methodology determines the threats to the achievement of business objectives. Details of these are kept in a hierarchy of risk registers which are regularly reviewed at Executive Committee and Board levels. The risk registers are also used to inform the budgetary process and insurance purchases.

ACSA's control framework is supported by a set of risk based operating standards, which establish the rules and instructions on enterprise-wide risks that require common treatment across all business units.

The Company has already rolled out a variety of processes for obtaining assurance on the adequacy of risk management and internal control. These include:

- A structured process to identify and review risks to the achievement of ACSA objectives;
- A formalised self–appraisal and assurance process by which assurance is provided on compliance with ACSA standards, aviation regulation, policies and procedures;
- Risk based audits of the ACSA operation by Internal Audit;
- A business control incident reporting process that enables the monitoring and appropriate follow-up actions for incidents arising from out of control breakdowns;
- An ACSA total ethics management programme; and
- Business continuity management.

These established processes allow the Board, through the Audit and Risk Committee, to regularly evaluate the overall effectiveness of the system of internal control and to perform a full review of the system's effectiveness.

## FIVE KEY RISKS FOR ACSA

1. **Aviation Safety and Security**

   ACSA, in providing world-class secure and safe airports, has always considered safety and security to be its highest priority. The Operations Committee provides leadership, reviews policies and monitors business performance against objectives (including issues pertaining to safety and security). In addition, the Executive Committee provides overall governance and advice on behalf of the Board and receives independent and management assurance on the management of risk in these areas. Various working committees have been formed with external stakeholders within the security fraternity.

2. **Relationships with Stakeholders**

   ACSA engages in continuous dialogue with stakeholders to understand their views and to communicate and explain the Company's objectives, strategy, performance and outlook. The Company has developed extensive stakeholder relations and two-way communication is encouraged. Continued relationship programmes with domestic and international carriers are encouraged and regular meetings are held with their representatives.

3. **Currency Fluctuations**

   ACSA is embarking on a capital expenditure programme that will result in exposure to foreign currency risk as some of the projects will include foreign currency denominated expenditure. In order to manage this risk, ACSA makes use of forward exchange contracts to cover the foreign exchange exposures on the importation of equipment and services. ACSA has treasury policies and guidelines that have been approved by the Board and the Company operates within these guidelines for currency related transactions. The policies cover financing structure, foreign exchange and interest rate risk management, counter party risk management as well as the treasury control framework.

4. **Regulatory Risk**

   ACSA operates in a regulated environment. The Regulating Committee, appointed by the Minister of Transport, applies the single till price cap methodology in setting tariffs with respect to the regulated aeronautical revenue. ACSA has engaged the Regulating Committee and the airlines through their respective associations, on the methodology, principles and implementation mechanisms of a single till price cap regulatory framework so as to create a sustainable and predictable regulatory environment.

5. **Airport Development Legislation and Policy**

   As a result of the legislative framework on airport development, there is growing pressure to develop new airports and provide existing ones with international operator licences. ACSA's current airports are not far from reaching their full capacity. Competition over this limited demand could potentially impact negatively on ACSA airports if other feeder airports into the network were developed without consideration for demand requirements. ACSA management has engaged various stakeholders, including government, to find a suitable solution that would sustain all operators.

## INTERNAL AUDIT

The internal audit function is independent of management and reports directly to the Board. It examines and evaluates the Company's activities with the objective of assisting members of Executive Management and the Board to discharge their responsibilities effectively. Internal controls are designed and implemented by management to:

- Safeguard the assets of the Group;
- Ensure efficient and effective use of resources, governance processes and the conduct of its operations;
- Comply with Company policies and procedures and legislative requirements;
- Achieve Group objectives; and
- Ensure the reliability and integrity of financial and operational information. The Group Executive: Internal Audit reports administratively to the Managing Director and functionally to the Chairman of the Audit Committee.

The audit function has as its primary objective the need to give assurance to the Board regarding the effectiveness of management business practice in protecting shareholder value. The assurance is given on internal controls stated earlier, risk management practices and corporate governance.

# CORPORATE CITIZENSHIP – BLACK ECONOMIC EMPOWERMENT AND PROCUREMENT

Airports Company South Africa (ACSA) promotes broad based black economic empowerment in the procurement of goods and services. As a major public entity and infrastructure delivery agent in the economy of South Africa, ACSA supports the principles and provisions of the Broad Based Black Economic Empowerment Act (BBBEE Act), which has not only enabled the equitable liberalisation of the economy, but has also created an awareness and introduced a paradigm shift to ensure that the economic liberalisation permeates throughout the economy.

ACSA is a major public entity, subject to the Public Finance Management Act, which requires that procurement is conducted in a fair, equitable, transparent, competitive and cost-effective manner. In 2001 ACSA adopted the provisions of the Preferential Procurement Policy Framework Act to ensure that the process of procurement in the Company is fair, equitable, competitive and transparent. At that time the Company adopted a target of 50 percent as the BEE procurement spend. In the past three years, the target was largely met, with consultants spend above target and contractors ranging from 43 percent (2003) to 45 percent (2005).

In 2004 ACSA adopted a BEE Strategy and policies and procedures to support the achievement of the strategy. The approach adopted was, in line with the approach of the broad based empowerment initiatives of government, to introduce a scorecard measuring the five pillars of economic transformation in the procurement process. These scorecards must be audited by an independent auditor or accountant as prerequisite of tender. The weighting of the scorecard is in favour of BEE ownership (45 percent), and management and control, employment equity, skills development, procurement and corporate social investment makes up the remaining 55 percent. The introduction of the BBBEE scorecard at the time received resistance from the suppliers of goods and services. A further result of these scorecards was the tracking of the supplier base of their own economic transformation, especially at the top of the organisation in the form of BEE ownership, which transformation has been supported by the opening of access to financial resources. The vertical measuring of management and human capital has further supported the upward mobility of the BEE managers and specialists providing the trickle down of economic empowerment. In measuring supplier BEE procurement, suppliers have become the transformation change agents in the supply chain resulting in a percolation of BEE spend. This manner of obtaining an acceptable BBBEE score is also often used to facilitate foreign specialised procurement, where the ownership and management broad based representivity is lacking. Companies previously unaware of corporate social responsibility have not only increased CSI spend, but have become innovative in terms of the CSI projects being developed.

To accelerate transformation in procurement consideration is being given to the evolving codes so that minimum levels of BBBEE will be required for being able to participate in the supply chain of the Company. For this reason a review of BEE policy and procedures is being undertaken to accommodate the changing regulatory and institutional environment with the imminent adoption of the Codes of Best Practice.

### CONSTRUCTION INDUSTRY DEVELOPMENT BOARD

ACSA has been registered as an employer of the CIDB. The CIDB was established in 2000 to provide leadership to stakeholders in the construction industry and to stimulate sustainable growth, reform and improvement of the construction sector for effective delivery and enhanced role in the country's economy. In line with the regulatory requirements, ACSA is a registered employer with the CIDB, requiring ACSA to register all construction tenders which exceed R200 000 in value with the CIDB. ACSA supports the role of the CIDB by requiring that all contractors who are currently contracted or who express an interest in pursuing projects with ACSA be registered with the CIDB.

### BBBEE IN MAINTENANCE AND ENGINEERING

One of the key infrastructure requirements of ACSA is the maintenance of the runways and pavements of the airports. A year ago, in line with the philosophy to establish strategic partnerships with regard to key service providers in the operations of the airports, ACSA entered into a three year framework agreement with NACO Steward Scott and Arcus Gibb with regard to consulting services for the maintenance of runways and pavements. At the annual review meeting with the service providers, positive results were presented not only on transformation data, but also the provision of world-class solutions for local infrastructure challenges.

The BBBEE transformation was illustrated, in the case of Arcus Gibb, by an increase from 39 to 47 points on the ACSA scorecard (or a 54 score on the Construction Charter) over the year being recorded – primarily in terms of increased BEE procurement spend and the increase of airport engineering black staffing. By the establishment of a focused Specialist Airport Engineering Team, optimal construction end quality and cash flow/logistic planning certainty has ensured that all the projects were delivered on time, in budget and claim free. Furthermore, research and development on materials design, innovations and proper contract administration resulted in an estimated 5 – 10 percent cost savings, clearly illustrating the value adding results of such a partnership. The recycling of asphalt pavement and the continued transfer of international expertise through the arrangement has increased the assurance that the ACSA runways and pavements are world-class and have resulted in the technology on Heavy Duty Airport Pavement design and construction being transferred to the broader road/pavement industry.

The NACO Steward Scott partnership has resulted in the transfer of international expertise of NACO to increase the South African skills base in airport engineering. In the first year of the framework agreement, the black staff profile in SSI increased by more than 30 percent, through the attraction of younger technical skills and the creation of a continuous supply of new talent with upward mobility.

Due to economies of scale, this often requires ACSA to procure goods manufactured outside the borders of our country. The challenge in creating an enabling environment for such foreign suppliers is that the establishment of a local presence requires time and resource allocation. An example is the award of the loading-bridge tender to FMC Technologies South Africa (Pty) Ltd, a wholly owned subsidiary of FMC Technologies BV in the Netherlands, which in turn is wholly owned by FMC Technologies Inc. in Houston, USA. FMC is a provider of industry leading technologies to the energy, food processing, and air transportation industries and operates 32 manufacturing facilities in 16 countries. In the first tender that ACSA awarded to FMC, it advised the tenderer that as a supplier of ACSA the economic transformation of the local company was imperative. FMC – SA has proposed to the holding structures that a strategy for BBEE in South Africa be adopted to address economic empowerment at stockholder level, employment equity, skills development and the transfer of international skills through local technology transfers. It has further progressed in identifying a local BEE partner to achieve the local empowerment strategy on a shareholding basis and by creating a joint venture with an independent distributor contractor.

## PROJECTS

In the year under review, ACSA has accelerated the investment in large infrastructure projects to accommodate the increase in passenger and airline demands. This has resulted in an increase in the procurement activities of the organisation focusing on creating infrastructure development on a par with the world's best.

As mentioned above, the level of BEE spend with regard to contractors is well below the target BEE. This is also supported by the awards that were made as at the end of the financial year 2006 in regard to the main contract awarded with respect to the central terminal building (42 percent BEE), echo apron (34 percent BEE) and the international pier (30 percent BEE). As part of the review of the BEE policies and procedures, consideration is being given to the creation of sustainable BEE construction companies. Although there have been BEE companies that have sustained their operations at the airport over several years, the number of these companies and the size of their contracts have not increased to the level that would result in improved BEE spend. Sub-contractors improve the total spend in the construction activities and attention is being given to see how best to ensure sustainable development at that level so that the industry grows and prospers for all.

## BEE IN RETAIL

At ACSA airports the retail annual turnover for the year under review amounted to R1,42 billion. The award of concessions to retailers to operate at the ACSA airports provides for best of brand, BEE and competitive pricing. Although the annual turnover in retail activities on the international airside benefited 44 percent BEE and landside turnover was at a level of 41 percent for BEE retailers, the domestic airside and landside was at BEE levels of 57 percent and 62 percent respectively. ACSA adopted a hurdle requirement of 50+1 percent BEE with regard to any concessions granted at the airports. The lower levels of BEE in the international areas are based on historic awards to retailers prior to the introduction of the hurdle.

In the year ahead, with the roll-out of the international pier and related infrastructure developments, new opportunities will be opened for retailers and it is anticipated that an increase in spend will result.

## PROPERTY DEVELOPMENTS

ACSA leases property mainly to the airlines, ramp handlers, cargo operators and retailers. Of the up-front lease premiums received in the year under review at Cape Town International Airport (CIA), 20 percent was from BEE companies; while at Johannesburg International Airport (JIA), 25 percent of the up-front lease premiums received came from BEE companies. At Durban International Airport (DIA), 2.4 hectares was sold to a company with 51 percent BEE shareholding.

# CORPORATE CITIZENSHIP – SAFETY, HEALTH AND ENVIRONMENT

Recognising the inherent risk associated with the complexity of the airport operating environment and that safety, together with security, are the largest operational risks in aviation, Airports Company South Africa (ACSA) has sharpened its focus on and commitment to the health and safety of persons who use and work at our airports.

### OPERATIONAL SAFETY

During the year under review, the Company's focus was the implementation of a comprehensive Safety Management System (SMS). This is a requirement of the International Civil Aviation Organisation (ICAO) which came into effect for all certified international airports in November 2005.

One of the requirements in terms of the SMS is the conducting of safety awareness campaigns. ACSA and representatives from the South African Civil Aviation Authority undertook these exercises jointly during the review period.

Safety initiatives implemented in previous fiscal years paid dividends this year as ACSA continued to manage and reduce the number of airside occurrences at all airports. These were maintained in line with the global average rate for such occurrences.

Operational safety procedures and working instructions have been reviewed and updated for current activities at the airports. As part of ACSA's continuous improvement process, a safety initiative to be undertaken in 2006/07 will be the implementation of an electronic non-conformance reporting system, in which all non-conformance to policies and procedures will be monitored and reviewed.

The five-year programme for the replacement and upgrading of capital equipment continues. A R25 million programme to replace the Automated Weather Observing Systems at Johannesburg, Cape Town, Durban, Port Elizabeth, East London, George and Pilanesberg Airports is underway. This project will be completed in 2006.

The programme to upgrade airport fire fighting vehicles continued. We will procure nine new vehicles in the 2007/08 fiscal year. This will ensure that ACSA's rescue and fire fighting capability remains at or above ICAO requirements. These vehicles are necessary for Johannesburg International Airport (JIA) and Cape Town International Airport (CIA) to meet the requirements for the introduction of the new large aircraft, such as the Airbus A380.

Other safety capital programmes include the upgrade and maintenance of aeronautical infrastructure such as runways, taxiways, aprons, airfield lighting and navigational aids.

### OCCUPATIONAL HEALTH AND SAFETY

Compliance with legislative requirements remains a critical focal point. Health and Safety Committees are constituted at all airports according to legal requirements. This ensures equal representation of employers and employees.

The occupational health and safety management system ensures consultation with all stakeholders regarding matters relating to health and safety in the workplace and the impact on health and safety of communities and other stakeholders.

ACSA has implemented initiatives to ensure all construction work undertaken at our airports is done in accordance with the contents of the Construction Regulations. Occupational Health and Safety procedures and working instructions are verified.

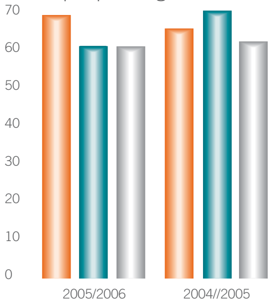
During the new financial year, ACSA will undertake a review of the status of occupational hygiene at all our airports, with a comprehensive programme being initiated to reassess this.

### ENVIRONMENTAL MANAGEMENT

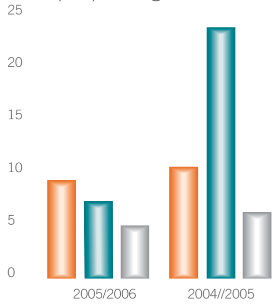
Environmental management is increasingly receiving more attention because of public awareness and developments relating to environmental legislation.

ACSA recognises that environmental management is a key determinant of sustainable development which is about finding an appropriate balance between social, economic and environmental development

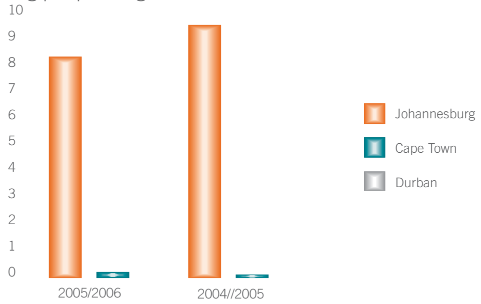
**WATER CONSUMPTION PER PASSENGER**
(Litres per passenger)




**ENERGY CONSUMPTION PER PASSENGER**
(kWh per passenger)




**WASTE MANAGEMENT PER PASSENGER**
(Kg per passenger)



Hence, ACSA's approach is to continue to entrench sound environmental management philosophies and business practices that will sustain the Company's value into the future.

Our approach to environmental management is based on the simple model of plan, develop, implement, audit and review to ensure continual improvement.

Environmental management procedures and working instructions were reviewed and updated to ensure alignment with ISO 14001 requirements. In the new fiscal year, a focal point will be to ensure compliance with the promulgation of revised environmental legislation.

Water and energy conservation, waste management, flora and fauna, bird and wildlife management at our airports, continue to be principal focus areas.

### WATER AND ENERGY CONSERVATION

While traffic volumes continue to increase significantly, water and energy conservation initiatives and programmes continue to result in improved water usage and more efficient use of energy.

Water consumption per passenger (litres per passenger)

| | Johannesburg | Cape Town | Durban |
|---|---|---|---|
| **2005/06** | **68,8** | **60,6** | **60,8** |
| 2004/05 | 65,3 | 70,2 | 61,8 |

Water consumption at Johannesburg International Airport (JIA) increased by about 4 percent during the review period while Cape Town International Airport (CIA) decreased consumption by some 5 percent. This significant decrease can be attributed to the awareness of airport users and employees of water conservation measures as well as the already-introduced water saving initiatives by the airport. Durban International Airport (DIA) reported a slight decrease of 1 percent.

To complement ACSA's water conservation initiatives, ACSA participated in promoting National Water Week, an initiative of the Department of Water Affairs and Forestry, which creates public awareness. The theme for this year was "Water for Growth and Development", and was held 27 – 31 March 2006.

Energy consumption per passenger (kWh per passenger)

| | Johannesburg | Cape Town | Durban |
|---|---|---|---|
| **2005/06** | **8,0** | **6,3** | **4,4** |
| 2004/05 | 9,2 | 20,4 | 5,2 |

Energy consumption at JIA decreased by about 1 percent for the review period. CIA's seemingly excellent progress in reducing energy consumption must be treated with caution as it could be the result of incorrect and unreliable readings. This will be closely monitored in the 2006/07 year.

### WASTE MANAGEMENT

JIA and CIA continued with their waste management programmes, which involve the separation of compatible waste streams to maximise recycling. Waste that cannot be recycled is disposed of at an external waste facility, using a registered waste disposal service provider. Hazardous wastes are handled separately.

Waste management per passenger (kg per passenger)

| | Johannesburg | Cape Town |
|---|---|---|
| **2005/06** | **8** | **0,2** |
| 2004/05 | 9,2 | 0,1 |

DIA has commenced with a similar programme.

### ALIEN VEGETATION

Cape Town International and Port Elizabeth airports did some ground work and commenced with the removal of alien vegetation.

Port Elizabeth airport embarked on a joint venture with Working for Water to eradicate 186 ha of alien vegetation on the airport's property. Approximately 130 ha is densely invested with mainly Acacia, Saligna, Acacia Cyclops, Acacia Melanoxylon and Eucalyptus, with 50 ha in the medium to light-medium classification. Working for Water indicated that they will match ACSA rand-for-rand for the eradication process as well as two follow-up chemical applications. This project was completed in March 2006. A follow-up spray to ensure suppression of specie re-growth was planned for later in the year.

CIA is aiming at removing 90 percent Port Jackson and 10 percent Rooikranz vegetation. This campaign will make CIA compliant with regard to control of invasive alien vegetation, create employment for communities around the airport, conserve water resources and reduce safety risks, such as bush fires. The removal of alien species will also improve access for emergency vehicles.

### BIRD AND WILDLIFE MANAGEMENT

Now in its seventh year, the ACSA – Endangered Wildlife Trust (EWT) strategic partnership continues to attract international recognition for its innovative and effective ways of minimising bird strikes and wildlife hazards at our airports by continuing to apply environmentally sensitive management principles.

During the year in review, there was a reduction in bird and wildlife occurrences, continuing the successful six-year trend in reducing this hazard at our airports.

### MOVING PEOPLE AND CHANGING LIVES

As a good corporate citizen, Airports Company South Africa (ACSA) is involved in a programme of strategic, targeted direct investments to improve the quality of life of the communities in which the Company operates. ACSA views CSI as a voluntary effort: its CSI endeavours are not compliance based, but are a response to socio-economic imperatives in South Africa.

ACSA currently spends 0,5 percent of after tax profit on CSI initiatives. However, this will be increased incrementally from 0,5 percent to 3 percent of pre-tax profits over a period of time in order to act in accordance with best practice in South Africa.

The theme of ACSA's CSI activities, "Moving People and Changing Lives" is, in many respects, an extension of ACSA's brand promise of "moving forward", translated into a practical manifestation of what ACSA is. The bulk of ACSA's CSI projects help people to move physically – to improve their mobility and access. So, for example, ACSA has formed a strong, national association in helping the disabled to become mobile and lead full lives through its support of the Wheelchair programme and Wheelchair Tennis South Africa.

ACSA's CSI theme also relates to moving people from a social or emotional perspective, by improving their situation or by improving their wherewithal to change their situation.

In line with this overarching focus, ACSA's CSI activities cover the sectors of health, welfare, education and training, community development and job creation.

The key projects that ACSA supports nationally, and to which ACSA will continue to devote most of its CSI expenditure, are:

- Wheelchair programme;
- Wheelchair Tennis South Africa;
- Bicycle donation; and
- Early Childhood Development (crèches).

**Projects**

### WHEELCHAIR TENNIS SOUTH AFRICA (WTSA)

ACSA has so far donated a total of R2,3 million to wheelchair tennis. The funds have been used mainly for training, coaching clinics, team tournaments and equipment and generally to popularise the sport.

During the review period, ACSA's sponsorship of this growing sport has enabled numerous clinics to be held in all provinces. The goal is to establish a core team of players with good prospects who will be able to represent South Africa at the 2008 Paralympics Games.

The training includes playing international games against teams from Brazil, Holland, Britain and Belgium. Several other international tournaments are scheduled to take place in South Africa in the current financial year.

Wheelchair Tennis South Africa is also engaged in popularising the sport beyond the borders of South Africa in countries like Nigeria, Mauritius and the Seychelles.

ACSA has made a long-term commitment to sponsor wheelchair tennis beyond 2008.

### HEALTH AND WELFARE

Still in the realm of encouraging mobility for the physically challenged, ACSA continues with its sponsorship of an innovative wheelchair programme.

In the review period, the Company spent R500 000 on purchasing wheelchairs for distribution in all the centres in which ACSA airports are located. These wheelchairs are donated to children at special schools who are unable to afford wheelchairs that give them the level of freedom of movement that a modern, lightweight, easy to maintain wheelchair offers.

ACSA has also continued its support for the Burns Unit at the Tygerberg Hospital. This is an important treatment centre for the many people, mainly children, who are severely injured in the frequent fires that occur in nearby informal settlements.

### EDUCATION AND TRAINING

Another project aimed at increasing people's mobility is the provision of bicycles for children in rural areas who have to walk more than 10 kilometres to and from school every day. Because of the distances and effort involved in simply getting to school, the drop-out rate among these learners is unacceptably high. The mobility afforded these learners is already having a marked impact on their school attendance, as well as their marks.

ACSA also invested R100 000 in upgrading certain school sporting facilities for children in wheelchairs including the resurfacing of purpose-built tennis courts at Hope School, Johannesburg.

The Company also continued its support for the computer centre in Kimberley that brings IT and computer literacy to the !Xu and !Xwe communities as well as other communities served by the school where it is housed.

In Cape Town, ACSA's support of the Emthonjeni Learning Support project, which runs an extra-curricular skills training programme for youth of all ages, is having an enormous effect on deterring youngsters from participation in gangsterism.

### COMMUNITY DEVELOPMENT

ACSA supports a wide range of projects for local communities close to its airports.

These include a crèche for children of the Vredehof farming community next to Cape Town International Airport; scholarships for tourism students at the Peninsula Technikon and a community school teaching basic skills at Khayalitsha. Another popular project is the Zibonele Business Club, which teaches business skills to local township entrepreneurs so that they can create jobs for the community.

In KwaZulu-Natal, ACSA managed and funded the extensive upgrading of an old-age home in KwaMashu, including the buildings, infrastructure and furnishing.

ACSA also sponsors the Boys' and Girls' Town project to benefit destitute children.

### ACSA AGENTS OF CHANGE

This is a new project designed to enable employees to volunteer and contribute towards ACSA CSI projects which is being piloted at Cape Town International Airport (CIA) before being rolled out to other airports.

The objectives of this project are to engage ACSA employees in community development; increase their understanding of community issues and needs; improve ACSA's profile within the local community; increase employee morale and retention; build team spirit and enhance the quality of life for community members around airports.