2011 ANNUAL REPORT

Dunedin
International
Airport
Limited

Annual Report for the Year ended 30 June 2011

company particulars

Directors
R F Walls, QSO, JP, FNZIM, F Inst D (Chairman)
S J McLauchlan, BCom, FCA(PP), AF Inst D (Chairman – Audit Committee)
G R Thomas, LLB, AF Inst D (Member – Audit Committee)
K Grant, BA, LLB, Dip Law

Chief Executive
F J McCall, AFNZIM

Business Manager
P Ford, B Com, CA

Operations Manager
R Roberts, BEng (Hons)

Registered Office
Terminal Building
Dunedin International Airport
Private Bag 1922
DUNEDIN

Telephone	03-486 2879
Facsimile	03-486 2813
E-mail	admin@dnairport.co.nz
Website	www.flydunedin.com

Bankers
Westpac
101 George Street
DUNEDIN

Solicitors
Gallaway Cook Allan
276 Princes Street
DUNEDIN

Auditors
Michael Peter Rondel of Polson Higgs
On behalf of the Auditor-General

airlines using dunedin international airport

FOR THE YEAR ENDED 30 JUNE 2011

Airline	Aircraft Type
DOMESTIC	
Air New Zealand	Boeing 737-300
Mount Cook Airline	ATR 72
Air Nelson	Dash 8-300
INTERNATIONAL	
Air New Zealand	Airbus 320-200
Pacific Blue	Boeing 737-800
CHARTER, FLIGHT TRAINING AND COMMUTERS	
Mainland Air Services	Cessna 152
	Cessna 172
	Piper PA31-350 Chieftain
	Piper PA34-200 Seneca
	Socata TB10 Tobago
FREIGHT SERVICES	
New Zealand Post - Airpost	Fairchild Metroliner 23
	Piper PA32-300

chairman and chief executive's report

THE YEAR IN REVIEW

Total passenger numbers at 776,508, compare to 778,190 last year, a decrease of 0.2%.

Domestic passenger numbers at 710,845, compare to 728,689 last year, a decrease of 2.4%.

International passenger numbers at 65,663 compare to 49,501, an increase of 32.6%

Total revenue is $8,505,456, an increase of 4.3% on last year and an increase of 4.1% against budget.

Shareholders' funds at $27,708,570 compares to $27,221,667 last year, an increase of 1.8%.

Operating surplus after tax of $713,592 compares to a deficit of $50,357 last year.

Non-aeronautical income at 68.7% of total revenue compares to last year's figure of 64.7%.

Bank debt – term loan, repayments totalled $1,550,000 for the year.

A dividend of $264,000 (3 cents per share) was declared and paid during the year and a payment of 4.5 cents per share totalling $396,000 is proposed to be made in November 2011.

ANY NUMBER OF CHALLENGES

The year has presented any number of challenges to the air transport industry globally and in New Zealand.

The lingering effects of the Global Financial Crisis have been added to by natural disasters and tragedies; severe earthquakes in Christchurch in September and February, major floods affecting major areas of the Australia's eastern seaboard in December and January, the earthquake/tsunami in Japan in March, and the Chilean volcanic ash in June affecting airspace over New Zealand and part of Australia.

These events have resulted in a reduction in travel demand which was particularly evident in the second half of the year.

The reduced demand has required airlines to be nimble and adjust capacity to match. Air New Zealand made many frequency and capacity adjustments to its domestic flight schedules servicing Dunedin in response.

The announcement by Jetstar in May that they would operate daily return services between Dunedin and Auckland from July 2011 was especially pleasing as it restores much needed capacity and vital competition lost when domestic services by Pacific Blue ceased in September 2010.

WHAT HAS HAPPENED AND WHY

Total revenue of $8,505,456 is both above budget and an increase on last year. The impact of the Christchurch earthquakes reduced domestic business and leisure traffic through Christchurch resulting in a slight reduction in total passengers for the year.

Aeronautical revenues were 3.0% below budget and down 6.2% on last year reflecting the referred to withdrawal of Pacific Blue from the domestic market in September 2010; reduced services and capacity operated by Air New Zealand due to the Christchurch earthquakes; and the cancellation of several domestic and international services due to 'ash cloud' from the Puyehue volcano eruption in Chile. The reduction was partially offset with the welcome addition by Pacific Blue of a fourth weekly flight to and from Brisbane.

Non-aeronautical revenues were 7.6% above budget and up 10.6% on last year with improved trading by terminal concessions and increased revenue from car parking as the key contributors.

The after-tax profit of $713,592 is a significant improvement on the budgeted profit of $26,996 and last year's deficit of $50,357 as a result of maximising revenue opportunities, a reduction in the provision for deferred taxation and the continued efficient and prudent management of all costs.

Domestic passenger numbers were down by 2.4%, from 728,689 last year to 710,847 this year. The first six months saw growth of 3.0% compared to the same period for the previous year. The second six months however, was impacted by the events referred to above with demand falling accordingly. For the year, domestic capacity reduced 5.3%, a reduction of 52,643 seats compared to last year.

International passenger numbers grew strongly and were up by 32.7%, from 49,501 last year to 65,663 this year. Compared to last year, airline capacity increased by 34.1%; an increase of 22,739 seats. The seasonal services to Sydney and Melbourne operated by Air New Zealand over the summer holiday season were extended through to March resulting in additional services and capacity. Pacific Blue increased their weekly services to Brisbane from three to four in October.

We continue to work with our airline customers, tourism organisations and travel operators in promoting travel to and from Dunedin through our airport and to marketing the city and our region in Australia.

Our present focus remains firmly fixed on restoring the trans-Tasman capacity which was withdrawn during the 2008-2009 year. The entry of Pacific Blue on the Dunedin – Brisbane route on a year round basis in 2009 has enabled us to focus on growing passengers on this route and with a particular emphasis on attracting Australians to visit Dunedin.

This strategy was always a key plank of the original objectives of *Project Gateway* and it is most pleasing to report that at 30 June 2011 "visitors" made up 50% of the international passengers on trans-Tasman services through the airport. This can be compared to 39% in 2004. Increasing visitors as opposed to residents on these services has the advantage of delivering a positive and much needed economic return to our city and region.

PROJECT GATEWAY

The original objective of *Project Gateway* sought the introduction of additional direct airline services between Dunedin and the east coast of Australia with emphasis on securing a daily return flight between Dunedin and Sydney.

This followed initial results from market surveys showing how unfamiliar the general populace in the major cities and towns on the east coast of Australia and, in particular, travel agencies and operators were of our city and region. There was clearly much to be done in identifying the attractions that would entice visitors to come and visit with us, whether they flew directly to Dunedin or over another airport such as Christchurch.

The Dunedin City Council agreed to fund the wider marketing aspects of the project with responsibility for its delivery appropriately placed with Tourism Dunedin.

The Council subsequently expanded the project to include wider economic development issues and set up a *Project Control Group* to co-ordinate and monitor all aspects.

By the time *Project Gateway* was launched by then Prime Minister Helen Clark in March 2001, these included funding 50% of research for a Dunedin business or cluster of firms which identified a potential Australian market; support for attending priority trade fairs; airfare and specialist consultancy services for firms visiting the Australian market and workshops on overcoming barriers to business in Australia.

The recent decision by the Dunedin City Council to discontinue the wider economic development aspects of Project Gateway and the Project Control Group reflects its natural lifespan.

The decision is one we have been fully consulted upon and agree with. It does not change the company's focus on growing air services and growing visitor numbers travelling to and from Dunedin.

Accordingly, we will continue to work directly and collaboratively with our Project Gateway partners; the Dunedin City Council, Tourism Dunedin, the Otago Chamber of Commerce, the University of Otago, inbound travel and tour operators and our airline customers, to attract more direct trans-Tasman services and visitors to our city and region.

Earlier this year in partnership with Pacific Blue, Blue Holidays, Tourism Dunedin and Tourism New Zealand, a marketing campaign was launched in Queensland promoting Dunedin and its gardens in autumn. The campaign featured well known Australian gardening celebrity, Jamie Durie, who hosted two tours each of 50 passengers. These niche tours sold out very quickly and were a resounding success featuring on the blogs and websites of James Durie and those who took part.

The campaign was delivered through various digital channels such as web and social media platforms and limited print media. Its success and on-going benefits point the way for similar joint ventures with our partners.

The importance of maintaining and increasing this targeted marketing activity is highlighted in a recent monitoring report to the company by Tourism Futures International. TFI has calculated that the revenue contribution to Dunedin and its region from visitors arriving at Dunedin Airport amounted to NZ$3.559 million for the year ended June 2011. This is 42.3% above the NZ$2.501 million for the previous year and assume an average spend of NZ$246 per visitor in the Otago/Southland areas. Although relatively small in terms of what our two major gateway airports achieve, this underscores the benefit that results from direct flights.

THE TRANS-TASMAN

In May 2010 Air New Zealand and Virgin/Pacific Blue applied to both New Zealand and Australian regulatory authorities seeking approval to operate their trans-Tasman services under an alliance/codeshare arrangement.

Initially the regulators denied the application however, following the agreement of the airlines to accept a baseline capacity and growth criteria for some “nominated” routes, regulatory approval was given in December.

The Dunedin–Brisbane route is one of the “nominated routes” with flight frequency and seat capacity protected by the conditions imposed in the approvals.

During the alliance/code-share approval phase both airlines expressed the view that the alliance/code-share is expected to bring growth opportunities for our trans-Tasman services.

The launch of the alliance in July 2011 brought into play reciprocal codeshare flights on Trans-Tasman networks and applicable connecting domestic services.

The Virgin Group will increase its presence in Dunedin as it takes over operation of all Air New Zealand services between Dunedin/Brisbane throughout the year and those between Sydney and Melbourne which operate during the summer peak.

The reciprocal codeshare flights agreed on by the two airlines on Trans-Tasman networks align fare structures, products and services. The alliance enables Air New Zealand passengers travelling from Dunedin to join with Virgin passengers in accessing the 29 additional ports in Australia serviced by Virgin.

From December 2011, all services within the Virgin Australia Group including Pacific Blue will operate under the brand Virgin Australia.

AIRSIDE

As reported at half-year, rehabilitation of the apron at Gates 1 and 2 is complete allowing unlimited use by aircraft such as the B737-800 and A320. Again as reported in December, the 5-year programme has been changed to accommodate the necessary widening of the Loop Taxiway in preparation for the introduction of the A320 Airbus into the Air New Zealand’s domestic fleet. This work was completed in December.

Work is also well advanced on meeting the CAA requirements in regard to the RESA requirements and construction of the ‘overshoot’ at the northern end of the runway, which involves a small area of privately owned property, is well advanced to meet the deadline for completion of mid-October.

DAIRY FARMING

As reported at half year, unsettled spring weather impacted on our dairy farming operations with poor grass growth and the need for increased expenditure on stock food and fertiliser.

The new effluent disposal pond is complete and working very efficiently. Indeed it is already recognised within the industry as a model for such infrastructure.

The review of the dairy farm unit to improve operations and increase profitability is well advanced.

LOOKING AHEAD

The global financial crisis has come, but not gone, and along with economic and political uncertainty in many economies and increasing oil prices, it is forecast that growth in the air transport industry will at best be modest.

New Zealand and Australia have seen some signs of recovery only to have external factors intervene.

For the first time in a decade, we are reviewing landing charges and consultation with our airline customers is currently taking place.

The exploration of the oil and gas areas off the Otago coast holds some exciting growth prospects should this development proceed.

From 1 August 2011 the Passenger Departure Fee of $25.00 (including GST), payable at the airport by passengers departing on international flights, will be replaced by a Passenger Service Charge (PSC) of $12.78 (including GST) for both arriving and departing international flights. The PSC will be included as part of the airline fare. This change will remove two queuing phases for the passengers and provide an improved travel experience through the airport. Dunedin is the third airport in New Zealand to make this change. The others are Auckland and Christchurch.

We remain confident of meeting the challenges that lie ahead and taking advantage of the opportunities that they present, in the interests of our airlines, airport users and the city and region we serve.

The board is satisfied with the state of the company's affairs.

During the period under review the company has met all of its statutory responsibilities with no non-conformance or abatement notices issued against it.

The Company is aware of and continues to observe its environmental and community responsibilities.

Richard Walls
Chairman

John McCall
Chief Executive

19 August 2011

statement of service performance

The following is a statement of service performance relating to key specific objectives listed in the Company's Statement of Corporate Intent for the year ending 30 June 2011.

STRATEGIC PRIORTY - FINANCIAL PERFORMANCE

1. *Increase the company's revenues and earnings.*

a) Financial Performance.

The results achieved for the year compared to budget are as follows:

	ACTUAL $000	BUDGET $000
Surplus before taxation	120	39
Surplus after taxation	701	27
Return on closing shareholders equity	2.5%	0.1%
Closing shareholders' equity	27,709	31,157

Revenue for the year was 4.1% above budget and expenses were 3.1% above budget. Aeronautical income was 3% below budget due to the cessation of Pacific Blue's domestic services in September 2010 whilst their international services to Brisbane increased from three to four services per week. Non aeronautical income was up 7.6% with increases in revenue from carparking, dairy farm and property rentals.

All costs were kept within budget except for interest, roading maintenance, fertiliser, grazing and effluent disposal costs, the last three relating to the dairy farming operations. The positive taxation charge is the result of the reduction in the deferred tax provision and the use of previous years tax losses against the 2011 taxable profit.

b) Increase non-aeronautical revenue by:

- Increasing car park revenue and earnings.
  - *Car park revenue 5.2% above budget.*
- Increasing revenue from conference facilities.
  - *Revenue 28.6% above budget.*
- Partnering with our retail concessionaires to increase their revenue.
  - *Receive and monitor monthly retail data from concessionaires and respond as appropriate.*
- Aim to achieve 180,000 kilograms of milk solids from dairy farm operations.
  - *166,762 kg MS for year. Production below budget due to poor spring growing conditions.*

c) Increase aeronautical revenue by:

- Partnering with our existing airline customers to increase passenger volume.
  - *Promotion of Pacific Blue services over BNE to; SYD, MEL and PER. Participated in two joint venture promotions with Pacific Blue targeting Australians to travel to Dunedin. Meetings with Air New Zealand management and sales personnel.*
- Partnering with our airline customers to introduce new services.
  - *Additional Pacific Blue BNE-DUD-DNE service commenced 17 September 2010.*
- Partnering with potential airlines to introduce new services.
  - *Established a business relationship with Jetstar senior management. Subsequently Jetstar commenced domestic operations from Dunedin in July 2011.*

2. *Improve the company's equity ratio*

- Reduce long term bank debt. Target debt reduction of $19,500,000 in 2010/11 to $18,350,000 as at 30 June 2011.
  - *Debt $18.3 m at 30 June 2011.*

3. *Maintain the company's economic sustainability through the mitigation of business risk.*

- Develop an appropriate risk strategy for the company.
  - *Risk Management Software has been installed. High level risks have been identified for each area of our business. These are reported to the Board on a six monthly basis.*

STRATEGIC PRIORITY - CORPORATE SOCIAL RESPONSIBILITY

1. *Be recognised as a positive contributor to the community and where appropriate provide support in areas such as education, the arts, cultural and sporting activities.*
   - Continue with sponsorship of the Otago Art Society Awards.
     - *Sponsor the Otago Art Society 2010 Spring Exhibition.*
   - Continue with sponsorship of the Southern Sinfonia.
     - *Chair sponsorship for the 2011 performance season.*
   - Undertake further discretionary sponsorship in line with the goals of Corporate Social Responsibility.
     - *Support Otago Polytechnic arborist course.*
     - *Participation of management personnel in the University of Otago MBA Mentor Programme.*
   - Host a minimum of ten school/community visits per year.
     - *18 visits hosted during the year.*

2. *Act as an environmentally aware and responsible corporate citizen through the introduction over time of sustainable environmental management and operational principles.*
   - Report to the Otago Regional Council on usage of aircraft de-icer product.
     - *Annual Report sent to ORC in January 2011.*
   - Recycle cardboard waste generated at the airport.
     - *14,418 kgs of cardboard recycled during the year.*
   - Continue to operate the airport worm farm to recycle sludge from the airport sewage treatment plant.
     - *All sewage sludge was recycled on the airport by the worm farm.*

3. *Use Otago manufactured and/or supplied goods and services subject to price, quality and other strategic considerations being met.*
   - Embed these considerations in all procurement decisions.
     - *Procurement Policy approved by DIAL Board.*

STRATEGIC PRIORITY - CUSTOMER SERVICE

1. *Provide friendly and efficient customer service with a smile to all our airport passengers and visitors.*
   - All Customer Service Staff will be provided with recognised customer service training.
     - *Staff have attended two external training courses during the year.*
   - Set up and carry out a Customer Service Survey within the terminal building to monitor customer satisfaction and measure service performance.
     - *Three survey podiums installed during the year.*
   - Set up a customer feedback system to ensure that our business is responsive to our customers' needs.
     - *526 feedback forms received and analysed.*

2. *Foster and maintain proactive engagements and communication with our business partners and stakeholders.*
   - Develop an Airport Communication Strategy.
     - *Draft completed 30 June 2011.*

STRATEGIC PRIORITY - HUMAN RESOURCES

1. *Maintain Management Practices that ensures that the company meets its Health and Safety Obligations.*
   - Complete an annual review of the Health and Safety plan with management and staff input.
     - *ACC Health & Safety Audit completed August 2010.*
   - Target zero days lost due to work related accidents.
     - *No days lost to date.*
   - Hold a minimum of 10 staff meetings.
     - *10 meetings held during the year.*

2. *Act as a good employer by providing equal employment opportunities, good and safe working conditions and opportunities for individual career development for all employees.*
   - Provide relevant training opportunities to ensure staff is fully engaged and competent in their positions.
     - *Staff attended nine external courses during the year.*

STRATEGIC PRIORITY - MARKETING AND BUSINESS DEVELOPMENT

1. *Increase air transport activity through Dunedin Airport.*
   - Initiate a Business Development plan to increase business at Dunedin airport.
     - *Conference facilities, Social Media & Marketing plan completed and implemented during the year.*
   - Partner with our existing and potential airline customers to encourage new route development, increased capacity and new services (particularly focused in increasing trans-Tasman flights)
     - *Communicated with Air New Zealand, Pacific Blue and Jetstar management on services and growth opportunities.*
     - *Engaged with Air New Zealand and Pacific Blue on the NZ/DJ alliance/code share for trans-Tasman services.*
     - *A business relationship was developed with Jetstar which culminated in Jetstar announcing in May 2011 new AKL-DUD-AKL services.*
   - Research and identify what differentiates Dunedin from other southern airports by analysing the southern region and using the findings to strengthen Dunedin's position in the market.
     - *Receive and analyse Tourism Future International reports, monthly passenger and aircraft movement data and airport user feedback information to identify Dunedin airport's strengths and weaknesses.*
   - Contribute to a Project Gateway initiative aimed at increasing Australian passenger numbers.
     - *Chief Executive attended Project Gateway Control Group meetings during the year.*

2. *Support regional economic activity which has strategic alignment with the company.*
   - Partner with organisations which have strategic alignment with the company's objectives.
     - *Chief Executive participated in;*
       - ➢ *Launch of Air Asia X services through Christchurch airport.*
       - ➢ *DCC "Your City Our Future" leadership team.*
       - ➢ *National Infrastructure Plan (Treasury project) Otago Southland workshop.*
       - ➢ *`Tourism Dunedin board meetings during year as a board member.*
       - ➢ *Meeting with Chamber of Commerce board.*
       - ➢ *Meetings with oil industry representatives on the proposed oil and gas exploration areas off the Otago coast.*

3. *Coordinate promotional and marketing activities with Corporate Social Responsibility initiatives whenever possible.*
   - Embed Corporate Social Responsibility initiatives in our promotional and marketing activity decision making process.
     - *Successfully commenced the "Artist in the Terminal" project. Confirmed forward exhibitions until November 2011.*
     - *Progressed the 50 year history of the airport with the author Jim Sullivan.*

STRATEGIC PRIORITY - INFRASTRUCTURE

1. *Provide, maintain and plan appropriate infrastructure that meets the needs of our customers.*
   - Maintain the airports CAA Operating Certificate by delivering aeronautical services and infrastructure in accordance with our standards and procedures.
     - *Security Audit completed April 2011: no findings.*
     - *Safety Audit completed July 2010: no findings.*
   - Ensure Building Warrants of Fitness are maintained in order to meet our obligations under Section 108 of the Building Act 2004.
     - *New WoF issued May 2011.*
   - Meet our Resource Consent conditions for Effluent Discharge and Bore Water.
     - *Annual STP sent to ORC May 2011.*
     - *Effluent Data entered for year.*
     - *Annual Bore Report on hold pending resource consent amendment application.*
   - No time delays to any commercial scheduled airline operations due to maintenance of airside infrastructure.
     - *No delays during year.*

trend statement

For the year-ended 30 June	2011	2010	2009	2008	2007
Revenue					
Operating Revenue:					
Aeronautical	**2,640,001**	2,813,698	2,941,721	2,579,508	2,547,439
Percentage	**31.0%**	34.5%	39.0%	33.7%	36.3%
Non-aeronautical	**5,842,172**	5,280,398	4,750,365	5,298,004	4,382,030
Percentage	**68.7%**	64.7%	62.9%	69.2%	62.4%
Interest income	**31**	54,675	41,535	3	38,286
Dividend income	**23,252**	8,422	835	787	175
Gain on investments	-	688	(185,643)	(224,622)	52,550
Total revenue	**8,505,456**	8,157,193	7,548,812	7,653,680	7,020,480
Percentage Increase	**4.3%**	8.1%	-1.4%	9.0%	6.0%
Surplus before tax	**120,336**	(208,471)	(732,862)	(328,459)	159,208
Percentage increase	**157.7%**	71.6%	-123.1%	-306.3%	-86.6%
Net tax paid surplus	**713,592**	(50,357)	(907,842)	(324,236)	324,847
Percentage increase	**1,517%**	94.5%	-179.9%	-199.8%	-64.8%

Shareholders' equity

Shareholders' equity	**27,708,570**	27,271,667	31,368,144	33,571,405	22,276,765
Return on shareholders' equity	**2.5%**	-0.2%	-2.9%	-1.0%	1.5%
Dividends paid	**264,000**	-	176,000	-	335,000
Dividend rate cents per share	**3**	-	2	-	3.8
Capital expenditure	**769,924**	1,357,332	1,053,708	1,088,585	3,072,520
Net operating cashflow	**2,554,825**	2,336,512	2,596,824	1,960,374	2,716,407
Net asset backing per share	**$3.15**	$3.10	$3.56	$3.82	$2.53
Proprietorship ratio	**48.7%**	46.6%	51.8%	54.2%	45.3%

statement of comprehensive income

For the year-ended 30 June	Notes	2011	2010
Operating revenue		8,482,205	8,093,408
Interest received		-	54,675
Dividend received		23,251	8,422
Gain/loss on investment		-	688
Total revenue		**8,505,456**	8,157,193
Audit fees	4	20,461	19,536
Directors fees		79,000	79,000
Finance costs – interest expense		1,577,772	1,527,946
Depreciation		2,532,843	2,508,193
Loss on disposal of assets		-	118,961
Wages and salaries		1,436,405	1,379,441
Other operating expenses		2,738,639	2,732,587
Total expenses		**8,385,120**	8,365,664
Operating surplus/(deficit) before income tax		**120,336**	(208,471)
Income tax expense/(credit)	5	(593,256)	(158,114)
Operating surplus/(deficit) after income tax		**713,592**	(50,357)
Other comprehensive income			
Property revaluation	7	-	(8,995)
Cash flow hedges gain/(loss) taken to equity		22,358	(119,628)
Income tax on items of other comprehensive income	5	(35,047)	(3,917,497)
Total comprehensive income/(deficit)		**700,903**	(4,096,477)

statement of changes in equity

Equity at the beginning of the year		27,271,667	31,368,144
Comprehensive income/(deficit) for the year		700,903	(4,096,477)
Less distribution to owners			
- Final dividend	8	(264,000)	-
Closing equity		**27,708,570**	27,271,667

These statements is to be read in conjunction with the notes on pages 15 to 30

balance sheet

As at 30 June

	Notes	2011	2010
Shareholders' equity			
Share capital	6	8,800,000	8,800,000
Hedge reserve	7	(1,020,218)	(1,007,529)
Revaluation reserve	7	7,912,223	7,912,223
Retained earnings	9	12,016,565	11,566,973
		27,708,570	27,271,667
Current liabilities			
Trade & other payables	10	834,073	758,375
Current liabilities	11	18,087,616	94,974
Provisions	12	133,886	133,326
		19,055,575	986,675
Non-current liabilities			
Term loans	14	300,000	19,850,000
Deferred taxation	15	8,393,655	8,986,392
Hedge derivatives	18b	1,416,970	1,439,328
		10,110,625	30,275,720
Total equity & liabilities		**56,874,770**	58,534,062
Represented by:			
Current assets			
Trade & other receivables	16	402,492	453,802
Prepayments	17	-	19,271
Cash & cash equivalents	13	11,077	41,495
Taxation paid		60,000	-
		473,569	514,568
Non-current assets			
Property, plant & equipment	19	55,096,391	56,681,477
Investments	20	870,867	869,548
Deferred taxation	15	433,943	468,469
		56,401,201	58,019,494
Total assets		**56,874,770**	58,534,062

For and on behalf of the directors.

R F Walls
Chairman
19 August 2011

S J McLauchlan
Director

This statement is to be read in conjunction with the notes on pages 15 to 30

statement of cashflows

For the year-ended 30 June	Notes	2011	2010
Cash flow from operating activities			
Cash was provided from:			
Receipts from customers		8,552,753	7,988,654
Interest received		31	54,885
Dividend received		23,252	8,422
Cash was applied to:			
Payments to suppliers		2,916,400	2,819,873
Payments to employees		1,461,926	1,372,854
Interest paid		1,582,885	1,522,722
Taxation paid		60,000	-
Net cash flows from operating activities	23	**2,554,825**	2,336,512
Cash flows from investing activities			
Cash was applied to:			
Purchase of shares		1,319	20,006
Purchase of assets		769,924	1,357,332
Net cash flows from investing activities		**(771,243)**	(1,377,338)
Cash flows from financing activities			
Cash was applied to:			
Repaid loans		1,550,000	2,150,000
Dividends paid		264,000	-
Net cash flows from financing activities		**(1,814,000)**	(2,150,000)
Net increase/(decrease) in cash held		(30,418)	(1,190,826)
Plus opening cash brought forward		**41,495**	1,232,321
Cash & cash equivalents held 30 June	**13**	**11,077**	41,495

This statement is to be read in conjunction with the notes on pages 15 to 30

notes to financial statements

For the year-ended 30 June 2011

1. ESTABLISHMENT

Dunedin Airport Limited, a public Company, was established under the Airport Authorities Act 1966 and incorporated on 30 September 1988. The Company changed its name to Dunedin International Airport Limited on 22 December 1999.

The Company purchased assets from the Dunedin Airport Authority on 1 November 1989 and commenced trading 1 November 1989.

2. REPORTING ENTITY

The financial statements presented here are for the reporting entity Dunedin International Airport Limited (the Company).

Dunedin International Airport Limited was established under the Airport Authorities Act 1966 and incorporated in New Zealand under the Companies Act 1993.

The registered address of the Company is Terminal Building, Dunedin International Airport, Momona, Dunedin.

The financial statements have been prepared in accordance with the requirements of the Companies Act 1993 and the Financial Reporting Act 1993.

These financial statements are presented in New Zealand dollars because that is the currency of the primary economic environment in which the Company operates. The financial statements are rounded to the nearest dollar.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements have been prepared in accordance with NZ Generally Accepted Accounting Practice. The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). They comply with New Zealand Equivalents to IFRSs (NZ IFRS), and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments.

The accounting policies set out below have been applied consistently to all periods in these financial statements.

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and GST.

Revenue from services rendered is recognised when it is probable that the economic benefits associated with the transaction will flow to the entity. The stage of completion at balance date is assessed based on the value of services performed to date as a percentage of the total services to be performed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Leasing
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Company as Lessor
Amounts due from lessees under finance leases are recorded as receivables at the amount of the Company's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Company's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging a lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Company as Lessee
Assets held under finance leases are recognised as assets of the Company at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

Foreign Currencies
The financial statements are presented in the currency of the primary economic environment in which the Company operates (its functional currency). For the purpose of the financial statements the results and financial position of the Company are expressed in New Zealand dollars, which is the functional currency of the Company.

Transactions in currencies other than New Zealand dollars are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. The Company does not hold non-monetary assets and liabilities denominated in foreign currencies.

In order to hedge its exposure to certain foreign exchange risks, the Company may enter into forward contracts and options (see below for details of the Company's accounting policies in respect of such derivative financial instruments).

Borrowing Costs
Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (ie. an asset that necessarily takes a substantial period to get ready for its intended use or sale) are capitalised as part of the cost of that asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Employee Entitlements
Entitlements to salary and wages and annual leave are recognised when they accrue to employees. This includes the estimated liability for salaries and wages and annual leave as a result of services rendered by employees up to balance date at appropriate rates of pay.

Payments made to a defined contribution retirement benefit scheme are dealt with as an expense when they fall due.

Taxation
The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Property, Plant and Equipment
Property, Plant and Equipment are those assets held by the Company for the purpose of carrying on its business activities on an ongoing basis.

Land and buildings are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation, less any accumulated depreciation and subsequent impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the balance sheet date.

Any revaluation increase is credited in equity to the properties revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in the carrying amount arising on the revaluation is charged to profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Plant and Equipment are stated at cost less any subsequent accumulated depreciation and any accumulated impairment losses.

Self-constructed assets include the direct cost of construction including borrowing costs to the extent that they relate to bringing the Property, Plant and Equipment to the location and condition for their intended service.

Depreciation is charged so as to write off the cost of assets, other than land and capital work in progress, on the straight-line basis. Rates used have been calculated to allocate the asset's cost less estimated residual value over their estimated remaining useful lives.

Depreciation of capital work in progress commences when the assets are ready for their intended use.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Depreciation rates and methods used are as follows:

	Rate	*Method*
Runway, apron and taxiway	3% - 6.66%	SL
Buildings	1% - 33.3%	SL
Machinery & plant	10% - 12.5%	DV
Motor Vehicles	20% - 25%	DV
Fixtures, fittings, office and computer equipment	20% - 40%	DV

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year the item is derecognised.

At transition date the carrying value of the land, runway, apron, taxiway, rental housing and buildings were transferred at deemed cost in accordance with NZ IFRS 1. Amounts in the revaluation reserve were transferred to retained earnings on transition.

Impairment of assets
At each balance sheet date, the Company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Financial Instruments
Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Receivables
Receivables are stated at cost less any allowances for estimated irrecoverable amounts.

Loans and other receivables
Loans and other receivables are financial instruments that are measured at amortised cost using the effective interest method. This type of financial instrument includes cash and bank balances, and demand deposits.

Investments
Investments are recognised and derecognised on a trade date where a purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at cost, including directly attributable transaction costs.

Investments in equity securities
Investments in equity securities are designated as financial assets at fair value through profit or loss. Any resultant gains or losses are recognised in the income statement.

Financial Liability and Equity
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Payables
Payables are stated at cost.

Term Loans
Term loans are initially recorded at fair value net of directly attributable transaction costs and are measured at subsequent reporting dates at amortised cost. Finance charges, premiums payable on settlement or redemption and direct costs are accounted for on an accrual basis to the Income Statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Equity Instruments
Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments and hedge accounting

The Company's activities expose it primarily to the financial risks of changes in interest rates resulting in variation of cash flows on floating rate debt. The Company uses interest rate swaps to hedge these exposures.

The Company does not use derivative financial instruments for speculative purposes. However, derivatives that do not qualify for hedge accounting, under the specific NZ IFRS rules, are accounted for as trading instruments.

The use of financial derivatives of the Company is governed by the interest rate hedge accounting policy approved by the Board of directors. The policies provide written principles on the use of financial derivatives.

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition derivative financial instruments are remeasured to fair value.

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in the Income Statement. For a cash flow hedge amounts deferred in equity are recognised in the Income Statement in the same period in which the hedged item affects net profit or loss.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the Income Statement as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the Income Statement for the period.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value with unrealised gains or losses reported in the Income Statement.

Provisions
A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured at the directors' best estimate of the expenditures required to settle the obligation at the Balance Sheet date, and are discounted to present value when the effect is material

4. AUDIT FEES

	Notes	2011	2010
Audit Fees		**20,461**	19,536
Fees for audit services		20,461	19,536
Fees for human resource and other services paid to the audit service provider		2,430	19,447
		22,891	38,983

5. TAXATION PROVISION

(a) Income tax

	2011	2010
Operating surplus/(deficit) before income tax	120,336	(208,471)
Taxation @ 30%	36,101	(62,541)
Plus / (Less) the tax effect of differences		
Revenue not liable for taxation	-	201
Tax losses written back	(232,780)	(95,372)
Under / (over) tax provision in prior years	(401,037)	-
Adjustment for change in tax rates	(4,460)	-
Tax effect of differences	(629,357)	(95,573)
Tax expense	**(593,256)**	(158,114)
Effective tax rate		75.8%
Represented by		
Deferred tax provision	(593,256)	(158,114)
Income tax	**(593,256)**	(158,114)

(b) Tax on Other Comprehensive Income

	2011	2010
Property Revaluation Reserve:		
Change in future tax rates	-	(384,512)
Change in future deductibility of building depreciation	-	(3,568,873)
Hedge Reserve:		
Deferred tax	(6,260)	35,888
Adjustment for change in tax rates	(28,787)	-
	(35,047)	(3,917,497)

(c) Imputation Credit Account

	2011	2010
Balance available at beginning of the year	1,945,458	1,945,443
Dividends paid	-	-
Credits attached to dividends received	257	15
Balance at 30 June	1,945,715	1,945,458

6. EQUITY – SHARE CAPITAL

	2011	2010
Issued Capital		
8,800,000 ordinary shares	**8,800,000**	8,800,000

All shares have equal voting rights and share equally in dividends and any surplus on winding up.

7. RESERVES

a) Hedging Reserve

	2011	2010
Balance at beginning of year	(1,007,529)	(923,791)
Net revaluations	22,358	(119,626)
Deferred tax arising on hedges	(6,260)	35,888
Change in tax rates	(28,787)	-
Balance at 30 June	**(1,020,218)**	(1,007,529)

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of the cash flow hedging instruments relating to interest payments that have not yet occurred.

b) Revaluation Reserve

	2011	2010
Balance at beginning of year	7,912,223	11,874,605
Property revaluations	-	(8,995)
Deferred tax adjustment to reflect depreciation change	-	(3,953,387)
Balance at 30 June	**7,912,223**	7,912,223

The properties revaluation reserve arises on the revaluation of land and buildings. Where revalued land or buildings are sold, the portion of the properties revaluation reserve that relates to that asset, and is effectively realised, is transferred directly to retained profits.

8. DIVIDENDS

	2011	2010
Final Dividend	264,000	-
	264,000	**-**
Dividends Per Share	**3 cents**	-

9. RETAINED EARNINGS

	2011	2010
Balance at beginning of year	11,566,973	11,617,330
Net profit / (loss) for the year	713,592	(50,357)
Dividend distributions	(264,000)	-
Balance at 30 June	**12,016,565**	11,566,973

10. TRADE & OTHER PAYABLES

	2011	2010
Trade payables	591,621	485,118
Accruals	242,412	273,257
	834,073	758,375

The amounts due to customers under construction contracts at 30 June 2011 was $52,933 (2010: 214,644).

11. OTHER LIABILITIES

	2011	2010
Current Liabilities		
GST payable	61,939	62,279
Other current liabilities	25,677	32,695
Bank loans (see note 14)	18,000,000	-
	18,087,616	94,974

12. PROVISIONS

Annual Leave

	2011	2010
Balance at the beginning of the year	133,326	135,096
Amounts used	(106,580)	(93,427)
Amount accrued	107,140	91,657
Balance at 30 June	**133,886**	133,326

Annual leave related staff leave not yet taken and is expected to be used in the next 12-18 months.

13. CASH

	2011	2010
Cash floats	950	950
Westpac cheque account	10,127	40,545
	11,077	41,495

The carrying amount of cash assets approximates their fair value.

14. TERM BORROWINGS (Secured)

	2011	2010
Wholesale term loan	**300,000**	19,850,000

Westpac has provided a Wholesale Term Loan of $18 million with a maturity date of 31 December 2011 and multi option credit line facility of $3 million with a maturity date of 30 September 2012. The Wholesale Term Loan is classified as a current liability this year although Westpac have indicated that is highly probable the loan will be renewed for a further term of two years from 31 December 2011. The Westpac Banking Corporation holds as security for the advances a first mortgage over the property of the Company and a negative pledge over all other assets. The Company uses interest rate swaps to manage its exposure to interest rate movements. These are detailed in note 18.

15. DEFERRED TAX

(a) 2011

	Opening Balance	Charged to Equity	Charged to Income	Closing Balance Sheet Assets	Liabilities	Net
Property, plant and equipment	(8,986,392)		592,737	-	(8,393,655)	(8,393,655)
Employee benefits	36,671		521	37,192	-	37,192
Revaluations of interest rate swaps	431,798	(35,047)		396,751	-	396,751
Balance at 30 June 2011	(8,517,923)	(35,047)	(593,258)	**433,943**	**(8,393,655)**	(7,959,712)

(b) 2010

	Opening Balance	Charged to Equity	Charged to Income	Closing Balance Sheet Assets	Liabilities	Net
Property, plant and equipment	(5,191,401)	(3,953,385)	158,397	-	(8,986,392)	(8,986,392)
Employee benefits	36,954	-	(283)	36,671	-	36,671
Losses carried forward	395,910	35,888	-	431,798	-	431,798
Balance at 30 June 2010	(4,758,537)	(3,917,497)	158,114	468,469	(8,986,392)	(8,517,923)

	2011	2010
16. TRADE & OTHER RECEIVABLES		
Trade receivables	**402,492**	453,802

The directors consider that the carrying amount of the trade receivables approximates their fair value. Debtors overdue by 30 days or more at 30 June 2009 were $44,496, 11% of trade receivables (2010, $57,501, 12.6%).

17. PREPAYMENTS	-	19,271

18. FINANCIAL RISK MANAGEMENT

a) Financial Risk Factors

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

Risk management is carried out by DIAL management and advice from Dunedin City Treasury under policies approved by the Board of Directors. DIAL management identifies, evaluates and hedges financial risks in close co-operation with Dunedin City Treasury. The Board provides written principles for overall risk management, as well as written policies covering specific areas such as interest rate risk, credit risk and use of derivative financial instruments.

b) Interest Rate Risk

Interest rate swaps	**(1,416,970)**	(1,439,328)

The Company uses interest rate swaps to manage its exposure to interest rate movements on its multi option facility borrowings by swapping a proportion of those borrowings from floating rates to fixed rates. The interest rate agreements are held with Westpac. With a variety of start dates the interest rate agreements held at 30 June 2011 exceeds the term debt. Interest rate risk is reviewed on a regular basis.

The Company treasury policy recommends that the levels of the fixed interest hedge should be limited to a series of ranges set within set debt time periods.

0 to 1 year	Between 70% to 90% of expected debt
1 to 2 years	Between 50% to 70% of expected debt
2 to 3 years	Between 40% to 50% of expected debt

The notional principal outstanding with regard to the interest rate swap is:

Effective interest rate		2011	2010
Maturing less than 1 year	6.86%	3,000,000	3,000,000
Maturing between 1 and 5 years	7.13%	14,000,000	19,000,000
Maturing more than 5 years	6.34%	5,000,000	-
		22,000,000	22,000,000

The interest rate swaps maturing in the 1 to 5 year band of $14m are replaced by one maturity of $5m in the 5 year band.

c) Liquidity Risk

Liquidity risk represents the ability of the Company to meet its contractual obligations. The Company evaluates its liquidity requirements on an ongoing basis and actively manages its liquidity risk through

- Arrangement of appropriate backup facilities to the short term borrowing programmes
- Managing a prudent balance of both short and long term borrowing programmes
- Regular review of projected cash flows and debt requirements

In general the Company generates sufficient cash flows from its operating activities to meet its obligations arising from its financial liabilities and has credit lines in place to cover potential shortfalls.

The maturity profile and effective interest rates of the Company's term borrowings are set out in note 14. The maturity profiles of the Company's financial assets, with the exception of equity investments is as follows:

2011				
	Maturity date 1 year or less	Maturity date more than 1 year and less than or equal to 5 years	Maturity date over 5 years	TOTAL
Financial Assets				
Trade & Other Receivables	402,492	-	-	402,492
Cash & Cash Equivalents	11,077	-	-	11,077
Tax Paid	60,000	-	-	60,000
	473,569	-	-	473,569

2011				
	Maturity date 1 year or less	Maturity date more than 1 year and less than or equal to 5 years	Maturity date over 5 years	TOTAL
Financial Liabilities				
Trade & Other Payables	1,055,575	-	-	1,055,575
Bank Loans	18,000,000	300,000	-	18,300,000
Derivative Financial Instruments	31,472	1,169,457	216,041	1,416,970
	19,087,047	1,469,457	216,041	20,772,545

2010				
	Maturity date 1 year or less	Maturity date more than 1 year and less than or equal to 5 years	Maturity date over 5 years	TOTAL
Financial Assets				
Trade & Other Receivables	473,073	-	-	473,073
Cash & Cash Equivalents	41,495	-	-	41,495
	514,568	-	-	514,568

2010				
	Maturity date 1 year or less	Maturity date more than 1 year and less than or equal to 5 years	Maturity date over 5 years	TOTAL
Financial Liabilities				
Trade & Other Payables	986,675	-	-	986,675
Bank Loans	-	19,850,000	-	19,850,000
Derivative Financial Instruments	112,198	1,199,017	128,113	1,439,328
	1,098,873	21,049,017	128,113	22,276,003

d) Credit Risk

Financial instruments which potentially subject the Company to credit risk principally consist of bank balances and accounts receivable. No collateral is held on such items which at 30 June 2011 totalled $473,570 (2010: $514,568).

Maximum exposures to credit risk is the amount stated in the financial statements and are net of any recognised provision for losses on these financial instruments. No collateral is held on these amounts.

Concentrations of Credit Risk

82.6% of trade debtors are due from six customers. These receivables are considered to be fully recoverable, see note 16.

The Company is not exposed to any other concentrations of credit risk.

e) Price Risk

The Company is exposed to price risk with respect to landing charges. The current landing charges schedule has been in place since 1 January 2001 and was due for review on 1 June 2006. Consultation has commenced with the airlines to review these charges. An increase in landing charges would bring the following increases in revenue with everything else being held constant.

% Increase	Revenue Increase
1%	26,000
2%	52,000
3%	78,000

f) Cash Flow Interest Rate Risk

The Company's exposure to cash flow risk through changes in the market interest rates relates primarily to the Company's long term debt obligations with a floating interest rate. The level of debt is disclosed in note (14).

The Company's policy is to manage its interest cost using a mix of fixed and variable rate debt. To manage this mix in a cost efficient manner, the Company enters into interest rate swaps, in which the Company agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. At 30 June 2011, after taking into account the effect of interest rate swaps, approximately 93% of the Company's borrowings are at a fixed rate of interest (2010 86%).

At 30 June 2011 the Company had $1.3 million of borrowings unhedged. Should interest rates increase/(decrease) by 1% with everything else being held constant the effect on the tax paid profit would be $9,000/($9,000).

g) Capital Management Strategy

The Company manages its capital to ensure that entities in the Company will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Company monitors capital on the basis of the equity ratio. This ratio is calculated as shareholders funds divided by total assets. The Board considers an equity ratio in excess of 50% would be appropriate for the Company. At 30 June 2011 this ratio was 47.8% (2010 46.6%).

h) Categories of Financial Assets and Financial Liabilities

Financial Assets	2011	2010
Fair Value Through Profit or Loss (FVTPL)	-	-
Designated as at FVTPL – Shares	870,867	869,548
Loans and Receivables	402,493	473,073
Cash & Cash Equivalents	11,077	41,495
Taxation Paid	60,000	-
Total Financial Assets	1,344,437	1,384,116
Non-Financial Assets	55,530,333	57,149,946
Total Assets	56,874,770	58,534,062

Financial Liabilities		
Derivative Financial Instruments in Hedge Accounting Relationships	1,416,970	1,439,328
Amortised Cost (Including Cash & Cash Equivalents)	19,355,575	20,836,675
Total Financial Liabilities	20,772,545	22,276,003
Non-Financial Liabilities	8,393,655	8,986,392
Total Liabilities	29,166,200	31,262,395

i) Leases

The Company has various operating leases with tenants at the airport. Minimum lease receivables under non-cancellable operating leases are as follows:

Under 1 year	38,645	1,762,586
1 to 5 years	584,549	6,506,685
Over 5 years	15,811,589	9,465,469

j) The carrying amount of assets and liabilities equates to their fair value.

k) Fair value of Financial Instruments

Financial instruments that are measured subsequent to initial recognition at fair value are grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 - Fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – Fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 – Fair value measurements are these derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

The following table details the Company's hierarchical classification of financial assets and liabilities measured at fair value as 30 June 2010. Other financial assets and liabilities are measured at amortised cost and not included in this table.

2011	Level 1 $	Level 2 $	Level 3 $	Total $
Investments				
Shares at market value in farmer cooperative	870,867			870,867
Derivates				
Hedge Derivatives		1,416,970		1,416,970

19. PROPERTY, PLANT & EQUIPMENT

(a) 2011

	Land	Runway, Apron, Taxiway	Buildings	Plant & Equipment	Office Equipment	Motor Vehicles	Total
Cost or Valuation							
Balance at beginning of period	12,066,955	17,774,951	20,108,731	16,888,423	110,322	669,899	67,619,281
Purchases	429,521	285,897	36,301	185,866	3,303	6,870	947,758
Transfers	-	-	3,912	(2,223)	(16,181)	-	(14,492)
Balance at end of period	12,496,476	18,060,848	20,148,944	17,072,066	97,444	676,769	68,552,547
Accumulated Depreciation							
Balance at beginning of period	330,687	2,311,656	2,279,624	5,488,855	77,341	449,642	10,937,805
Depreciation	87,158	784,142	442,890	1,181,733	12,047	24,873	2,532,843
Transfers	-	-	3,912	(3,242)	(15,162)	-	(14,492)
	417,845	3,095,798	2,726,426	6,667,346	74,226	474,515	13,456,156
Balance at end of period	12,078,631	14,965,050	17,422,518	10,404,720	23,218	202,254	**55,096,391**

(b) 2010

	Land	Runway, Apron, Taxiway	Buildings	Plant & Equipment	Office Equipment	Motor Vehicles	Total
Cost or Valuation							
Balance at beginning of period	11,206,277	17,751,280	19,664,324	16,872,584	111,972	670,134	66,276,571
Purchases	860,678	23,671	503,319	213,117	16,811	-	1,617,596
Sales	-	-	(58,912)	(197,278)	(18,461)	(235)	(274,886)
Balance at end of period	12,066,955	17,774,951	20,108,731	16,888,423	110,322	669,899	67,619,281
Accumulated Depreciation							
Balance at beginning of period	272,518	1,537,611	1,859,169	4,409,197	75,316	422,730	8,576,541
Depreciation	58,168	774,045	427,411	1,203,359	18,064	27,146	2,508,193
Sales	-	-	(6,956)	(123,701)	(16,039)	(234)	(146,930)
	330,686	2,311,656	2,279,624	5,488,855	77,341	449,642	10,937,804
Balance at end of period	11,736,269	15,463,295	17,829,107	11,399,568	32,981	220,257	56,681,477

(c) Land, buildings and airside pavements were revalued at 1 July 2007 by an independent registered valuer, Telfer Young (Canterbury) Limited. The total fair value of these assets at 1 July 2007, the effective date of the revaluation, was $60,266,000. Land was valued by reference to market sales, market comparison and investment valuation. Buildings were valued by using the Optimised Depreciated Replacement Cost (O.D.R.C.) methodology. The specialised assets being runway, taxiways, aprons and infrastructure assets were valued using the Optimised Depreciated Replacement Cost (O.D.R.C.) methodology.

20. INVESTMENTS

	2011	2010
Non-current investments		
Shares at market value in farmer cooperative Companies involved with dairy farm companies	**870,867**	869,548

Of this sum $849,823 (2010, $849,823) is represented by shares in Fonterra Co-operative Group. These shares are required to be held by the Company based on production and can only be realised when production reduces or the Company ceases dairying operations.

21. CONTINGENT LIABILITIES

There were no other contingent liabilities outstanding at 30 June 2011 (2010 nil).

22. CAPITAL AND OTHER COMMITMENTS

Capital and other expenditure not provided for in the accounts at 30 June 2011 was $340,833 (2010 $231,990).

23. RECONCILIATION OF NET SURPLUS FOR THE YEAR TO CASHFLOWS FROM OPERATING ACTIVITIES

	2011	2010
Net surplus/(deficit) for the year	700,903	(50,357)
Items not involving cashflows		
Depreciation	2,532,843	2,508,193
Net loss on disposal of property, plant & equipment	-	118,961
Decrease in value of investments	-	(668)
Deferred taxation	(593,256)	(158,114)
Impact of changes in working capital items		
(Increase) / Decrease in trade and other receivables	70,580	(104,564)
Increase / (Decrease) in trade and other payables	68,901	283,324
Less items classified as investing	(225,144)	(260,263)
Net cash inflows from operating activities	**2,554,825**	2,336,512

24. JUDGEMENTS AND ESTIMATES

The Company used the following judgements in preparing the financial statements:
The tax losses have not been carried forward as a deferred tax asset as there is not sufficient probability that the losses will be used in the near future.

25. FINANCIAL REPORT STANDARDS ISSUED BUT NOT YET EFFECTIVE

A number of accounting standards have been issued but as they are not yet compulsory they have not been applied to this set of accounts. The standard to be applied to future financial statements is NZ IFRS 9. NZ IAS 39 is being replaced by IFRS 9 through three phases: phase 1 classification and measurement, phase 2 impairment methodology and phase 3 hedge accounting. The new standard is required to be adopted for the year ended December 2013.

The impact of this standard when adopted is not expected to have a material impact on the financial statements.

26. RELATED PARTY TRANSACTIONS

(a) The shareholders of the Company are The Crown and Dunedin City Holdings Limited, which is wholly owned by the Dunedin City Council. Each owns 50%.

The Company undertakes many transactions with State Owned Enterprises, Government Departments and Dunedin City Council Controlled enterprises. These are carried out on an arm's length commercial basis. Businesses in which directors and key management personnel have a substantial interest and which provided services/supplies to the Company on an arm's length commercial basis during the year were:

Dunedin City Council (R F Walls – elected member) – rates and services
Gallaway Cook Allan (K Grant – associate) – legal services
Tourism Dunedin (J McCall – trustee) – tourism promotions

(b) Transactions with entities in which directors and key management personnel have an interest with details of purchases for the year and balances owing at 30 June being as follows:

	Annual Purchases		Owing at 30 June	
	2011	2010	**2011**	2010
Dunedin City Council (R Walls – councillor)	223,213	215,027	-	2,250
Gallaway Cook Allan (K Grant – associate)	19,738	13,114	3,381	-
Tourism Dunedin (J McCall – trustee)	230,134	31,193	-	-

(c) Compensation of key management personnel:

The remuneration of directors and other members of key management during the year was:

	2011	2010
Short-term benefits	625,820	604,844

The remuneration of directors is agreed annually, after consultation with the shareholders, and approved at the Company's annual meeting.

The remuneration of the Chief Executive is determined by the Board and the remuneration of key management personnel is determined by the Chief Executive having regard to the performance of individuals and market trends.

There were no significant events after balance sheet date.

shareholder information

INTERESTS REGISTER

The following are particulars of general disclosures of interest given by the Company directors and key management personnel pursuant to section 140(2) of the Companies Act 1993

RICHARD WALLS

Forever Fashion Ltd. (50% shareholder)	Director
The Aramoana Relief Trust Inc.	Chairman
The Otago Cricket Trust Inc.	Trustee

KATHY GRANT

Gallaway Cook Allan	Associate
Otago Polytechnic Council	Chairperson
Sport Otago	Board Member

STUART MCLAUCHLAN

A D Instruments Pty Ltd.	Director
Cargill Holdings 2002 Ltd.	Director
City Forests Ltd.	Director
Delta Investments Ltd.	Director
Delta Lines Ltd.	Director
Delta Utilities Ltd.	Director
Dunedin Casinos Ltd.	Director
Dunedin City Holdings Ltd.	Director
Dunedin Transport Ltd.	Director
G S McLauchlan & Co.	Partner
Helicopters NZ Ltd.	Chairman
HTS110 Ltd.	Director
Lund South Ltd.	Director
New Zealand Sports Hall of Fame	Board of Governors
Otago Community Hospice	Chairman
Otago/Southland Battalion Group	Honary Colonel
Pharmac	Chairman
Roxdale Foods Ltd.	Director
Scenic Circle Hotels Ltd and Subsidiaries	Director
Scott Technology Ltd.	Chairman
South Canterbury Finance Subsidiaries	Director
Southern District Health Board	Crown Monitor
University of Otago	Pro Chancellor
University of Otago Foundation Studies Ltd.	Director
USC Investments Ltd.	Director
UDC Finance Ltd.	Chairman

GEOFFREY THOMAS

Anderson Lloyd and related Companies	Director
Dunedin Casinos Ltd.	Director
Drivers Road Trust Company Ltd.	Director
Fund Managers Canterbury Ltd.	Director
Fund Managers Holdings Ltd.	Director
Larnach Castle Ltd.	Chairman
Principals Advice & Support Ltd.	Chairman
Taieri Industrial Rental Investments Ltd.	Director
The Street NZ Ltd.	Chairman
Upstart Incubator	Chairman
Royal NZ Ballet	Board Member

JOHN MCCALL

NZ Airports Association	Director
Taieri Gorge Railway Ltd	Director
Tourism Dunedin	Trustee

Directors' Interests in Contracts

Details of contracts involving directors' interests entered into during the year ended 30 June 2011 are provided in Note 25 to the Financial Statements. All transactions were conducted on an arms' length commercial basis.

Directors' Insurance

In accordance with section 162 of the Companies Act 1993 and the Constitution, Dunedin International Airport Limited has arranged policies of Directors' Liability Insurance which, together with a deed of indemnity, ensure that the directors incur no monetary loss as a result of actions undertaken by them as directors, provided that they operate within the law.

Principal Activities of the Company

The Company's principal activity is the operation of Dunedin International Airport. Areas of land adjacent to the airport held for possible expansion purposes are dairy farmed in partnership with a sharemilker. The Company also owns a small residential housing estate on land adjoining the airfield to the north.

State of Affairs

The directors note that the financial position of the Company remains sound and the state of the Company's affairs is satisfactory.

Remuneration of the Directors

The directors of Dunedin International Airport Limited and their remuneration for the year ended 30 June 2011 are as follows:

Director	Qualification	Responsibilities	Remuneration
Richard F Walls	QSO, JP, F Inst D	Chairman	$25,558
Stuart J McLauchlan	BCom, FCA(PP), AF Inst D	Non-Executive Director	$17,814
Geoffrey R Thomas	LLB, AF Inst D	Non-Executive Director	$17,814
Kathy Grant	BA, LLB, Dip Law	Non-Executive Director	$17,814

Directors' Benefits

No director of Dunedin International Airport Limited has, since the end of the previous financial year, received or become entitled to receive a benefit other than a benefit included in the total remuneration received or due and receivable by the directors shown in the financial statements. There were no notices from directors of the Company requesting to use Company information received in their capacity as directors which would not otherwise have been available to them.

Employee Remuneration

The number of employees whose remuneration and benefits are within specified bands are as follows:

Remuneration Range	No. Employees
$130,000-$150,000	2
$250,000- $260,000	1

The directors are not aware of any other matters or circumstances since the end of the financial year not otherwise dealt with in this report or the Company's financial statements that has significantly or may significantly affect the operation of Dunedin International Airport Limited, the results of those operations or the state of affairs of the Company.

For and on behalf of the directors:

R F Walls
Chairman

S J McLauchlan
Director

19 August 2011

PolsonHiggs
BUSINESS ADVISORS

DUNEDIN
Moray House
139 Moray Place
PO Box 5346
Dunedin 9058
New Zealand

T 03 477 9923
F 03 477 9795
W www.ph.co.nz

CHRISTCHURCH
HSBC Tower
62 Worcester Boulevard
PO Box 4449
Christchurch 8140
New Zealand

T 03 366 5282
F 03 366 4254
W www.ph.co.nz

AUDIT REPORT

TO THE READERS OF DUNEDIN INTERNATIONAL AIRPORT LIMITED'S FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION FOR THE YEAR ENDED 30 JUNE 2011

The Auditor-General is the auditor of Dunedin International Airport Limited (the company). The Auditor-General has appointed me, Michael Peter Rondel, using the staff and resources of Polson Higgs, to carry out the audit of the financial statements and performance information of the company on her behalf.

We have audited:

- the financial statements of the company on pages 12 to 30, that comprise the balance sheet as at 30 June 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the performance information of the company on pages 8 to 10.

Opinion on the Financial Statements and Performance Information

In our opinion:

- the financial statements of the company on pages 12 to 30
  - comply with generally accepted accounting practice in New Zealand;
  - comply with International Financial Reporting Standards; and
  - give a true and fair view of the company's:
    - financial position as at 30 June 2011; and
    - financial performance and cash flows for the year ended on that date;
- the performance information of the company on pages 8 to 10:
  - complies with generally accepted accounting practice in New Zealand; and
  - gives a true and fair view of the achievements measured against the performance targets adopted for the year ended on 30 June 2011.

Opinion on Other Legal Requirements

In accordance with the Financial Reporting Act 1993 we report that, in our opinion, proper accounting records have been kept by the company as far as appears from an examination of those records.

Our audit was completed on 19 August 2011. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities, and we explain our independence.

Basis of Opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements and performance information are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements and performance information. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and performance information. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and performance information whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the company's preparation of the financial statements and performance information that give a true and fair view of the matters to which they relate. We consider internal control in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board of Directors;
- the adequacy of all disclosures in the financial statements and performance information; and
- the overall presentation of the financial statements and performance information.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and performance information. In accordance with the Financial

Reporting Act 1993, we report that we have obtained all the information and explanations we have required. We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Board of Directors

The Board of Directors is responsible for preparing financial statements and performance information that:

- comply with generally accepted accounting practice in New Zealand;

- give a true and fair view of the company's financial position, financial performance and cash flows; and

- give a true and fair view of its service performance achievements.

The Board of Directors is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements and performance information that are free from material misstatement, whether due to fraud or error.

The Board of Directors' responsibilities arise from the Local Government Act 2002 and the Financial Reporting Act 1993.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and performance information and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and section 69 of the Local Government Act 2002.

Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the New Zealand Institute of Chartered Accountants.

In addition to the audit we have carried out assignments in the area of human resources, which are compatible with those independence requirements. Other than the audit and these assignments, we have no relationship with or interest in the Airport.

Michael Peter Rondel,
Polson Higgs
On behalf of the Auditor-General,
Dunedin, New Zealand

Matters relating to the electronic presentation of the audited financial statements and performance information

This audit report relates to the financial statements and performance information of Dunedin International Airport Ltd (the Airport) for the year ended 30 June 2011 included on the Airport's website. The Board of Directors are responsible for the maintenance and integrity of the Airport's website. We have not been engaged to report on the integrity of the Airport's website. We accept no responsibility for any changes that may have occurred to the financial statements and performance information since they were initially presented on the website.

The audit report refers only to the financial statements and performance information named above. It does not provide an opinion on any other information which may have been hyperlinked to or from these financial statements and performance information. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and performance information and related audit report dated 19 August 2011 to confirm the information included in the audited financial statements and performance information presented on this website.

Legislation in New Zealand governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.