2011 SUMMARISED ANNUAL REPORT

Dunedin International Airport Limited

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.

Dunedin International Airport Limited Board of Directors; from left; Richard Walls (Chairman), Stuart McLauchlan, Geoff Thomas and Kathy Grant

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	John McCall
Chairman	Chief Executive

19 August 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

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SOLICITORS
Gallaway Cook Allan, 276 Princes Street, Dunedin

AUDITORS
Michael Peter Rondel of Polson Higgs & Co
on behalf of the Auditor-General

summary financial report

These are summary financial statements of Dunedin International Airport Limited for the year ended 30 June 2011. The specific disclosures included in this Summary Financial Report have been extracted from the full financial reports dated 19 August 2011. The full financial report dated 19 August 2011 has been prepared in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZIFRS).

The full financial statements upon which this Summary Financial Report is based on have been prepared to comply with the NZ GAAP and the Financial Reporting Act 1993. This summary financial report complies with FRS 43: Summary Financial Statements. The presentation currency is New Zealand dollars and is rounded to the nearest dollar.

This Summary Financial Report cannot be expected to provide as complete an understanding as provided by the full financial report of the financial performance, financial position and cashflows of the company.

An unqualified audit opinion has been received on the full financial report for the year ended 30 June 2011. A copy of the full company financial statements may be obtained by contacting airport administration on 03 486 2879 or by visiting the company's website at *ww.flydunedin.com*.
This Summary Financial Report has been examined by our auditor for consistency with the full financial report. An unqualified opinion has been received. These summary financial statements were approved for issue by the directors on 19 August 2011.

statement of comprehensive income

for the year ended 30 June

	2011 $	2010 $
Operating revenue	8,505,456	8,157,193
Finance costs	1,577,772	1,527,946
Operating deficit before income tax	120,336	(208,471)
Income tax/(credit)	(593,256)	(158,114)
Operating surplus/(deficit) after income tax	**713,592**	**(50,357)**
Other comprehensive income:		
Property revaluation	-	(8,995)
Cashflow hedges gain/(loss) taken to equity	22,358	(119,628)
Income tax on items of other comprehensive income	(35,047)	(3,917,497)
Total comprehensive income/(deficit)	**700,903**	**(4,096,477)**

statement of changes in equity

for the year ended 30 June

	2011 $	2010 $
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	(264,000)	-
Closing equity	**27,708,570**	**27,271,667**

balance sheet
as at 30 June

	2011 $	2010 $
Shareholders' equity	27,708,570	27,271,667
Current liabilities	19,055,575	986,675
Non-current liabilities	10,110,625	30,275,720
Total equity and liabilities	**56,874,770**	**58,534,062**

Represented by:		
Current assets	473,569	514,568
Non-current assets	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

statement of cashflows
for the year ended 30 June

	2011 $	2010 $
Net cash flows from operating activities	2,554,825	2,336,512
Net cash flows from investing activities	(771,243)	(1,377,338)
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 held 30 June	**11,077**	**41,495**

PolsonHiggs
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INDEPENDENT AUDITOR'S REPORT

TO THE READERS OF DUNEDIN INTERNATIONAL AIRPORT LTD'S SUMMARY FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

We have audited the accompanying summary financial statements which were derived from the audited financial statements of Dunedin International Airport Ltd (the Company) for the year ended 30 June 2011 on which we expressed an unqualified audit opinion in our report dated 19 August 2011.

The summary financial statements comprise the summary balance sheet as at 30 June 2011, and summaries of the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and the notes to the summary financial statements that include accounting policies and other explanatory information.

Opinion

In our opinion, the information reported in the summary financial statements complies with FRS-43: *Summary Financial Statements* and is consistent in all material respects with the audited financial statements from which they have been derived.

Basis of opinion

The audit was conducted in accordance with the Auditor-General's Auditing Standards, and the International Standards on Auditing (New Zealand).

The summary financial statements and the audited financial statements from which they were derived, do not reflect the effects of events that occurred subsequent to our report dated 19 August 2011 on the audited financial statements.

The summary financial statements do not contain all the disclosures required for audited financial statements under generally accepted accounting practice in New Zealand. Reading the summary financial statements, therefore, is not a substitute for reading the audited financial statements of the Trust.

Responsibilities of the Board of Directors and the Auditor

The Board of Directors is responsible for preparing the summary financial statements in accordance with FRS-43: *Summary Financial Statements.* We are responsible for expressing an opinion on those statements, based on the procedures required by the Auditor-General's auditing standards and the International Standard on Auditing (New Zealand) 810: *Engagements to Report on Summary Financial Statements.*

Other that in our capacity as auditor we have no relationship with, or interest in, the Company.

Michael P Rondel
Polson Higgs
On behalf of the Auditor-General
Dunedin, New Zealand
17 August 2011

Matters relating to the electronic presentation of the audited summary financial statements

This audit report relates to the summary financial statements 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 summary 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.