

Dunedin International Airport Limited

Annual Report for the year-ended 30 June 2006

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report of the chairman and the chief executive

The Year in Review

Dunedin International Airport Limited has enjoyed a year of growth and consolidation across the board.

- Total passenger numbers at 703,903, compare to 690,492 last year, an increase of 1.9%.
- Domestic passenger numbers at 613,578, compare to 597,506 last year, an increase of 2.7%.
- International passenger numbers at 90,325 compare to 92,986, a slight decrease of 2.9%, but in line with trans-Tasman trends. This decrease reflects the move to seasonal flights to both Melbourne and Coolangatta but was offset by growth on both the Sydney and Brisbane services.
- Total revenue came to \$6,624,501, an increase of 6.1% on last year and 4.2% above budget.
- The after tax profit of \$781,344 compares to \$1,423,991 last year, a decrease of 45.1%. This decrease is the result of the impact of interest and depreciation costs relating to the terminal redevelopment. Both the new domestic and international sections of the terminal were commissioned during the 2006 financial year.
- Shareholders funds at \$23,983,382 compare to \$23,967,038 last year, an increase of 0.1%.
- The operating surplus after taxation to closing shareholders' equity is 3.3% (5.9% last year). The return on shareholders' capital contributed and retained profits is 6.2% compared to 11.3% last year. This reduction was a result of the impact of our investment in the terminal redevelopment.
- Non-aeronautical income, at 61.5% of total revenue, compares to last year's figure of 60.3%.

The directors have declared a fully imputed final dividend of \$335,000 (3.8 cents a share), bringing the total dividend for the year to \$402,000 (4.6 cents a share), compared to \$854,000 or 9.7 cents per share last year.

While the company has enjoyed solid revenue growth during the year, the drop in profit and dividend is a reflection of interest and depreciation costs associated with the investment in the new terminal.

Consideration was given to capitalising some of the interest paid, however, following discussions with our auditor, the board agreed that all the interest would be expensed. The board also resolved to move to depreciating the capital costs of the terminal redevelopment on a straight-line basis. This will more evenly spread depreciation charges over the life of the component assets.

Terminal Redevelopment

The redeveloped terminal moved rapidly towards completion during the course of the year.

The doors opened on Stage Two - the main core of the terminal redevelopment – as targeted on 30 September 2005. The new three-level building provides passenger check-in and baggage reclaim areas on the ground floor, a passenger lounge and retail areas on the second level, and Koru Club and conference facilities on the mezzanine above.

Passengers now enjoy greatly enhanced services and new retail areas, tenanted by The CD Store, Paper Plus, Try Otago, Bank of New Zealand and a Duty Free Stores outlet. Three food outlets operated by Spotless Services: Velutto - a 150-seat urban style café with full bar facilities in the passenger lounge area and BLD - a quick food outlet – are both on the second floor and the Espresso Plus café is on the ground floor. Kids are also catered for with X-Zone, an electronic amusement venue and a free children's play area with equipment made by local company AJ Grant.

Superb new conference facilities on the mezzanine floor can easily cater for up to 100 people for meetings and conferences, and feature magnificent views of the Taieri Plains and the Maungatua range. Air New Zealand's new Koru Lounge facilities are also located on the same level, offering facilities which compare more than favourably with Koru Lounges at other New Zealand airports.

Relatively little fanfare accompanied the change-over. The old terminal shut down one evening and - after a frantic night - the new section opened the next morning. It was extremely gratifying – and a tribute to all involved - that all went according to plan and, equally importantly, that we met the requirement to have hold-stow baggage screening for international flights in place by the 1st of October 2005.

Stage Three, a 4,000sq metre, two-level international arrivals and departures section of the terminal, opened on the 30 May 2006 - again on target. The greatly expanded customs, immigration and biosecurity screening areas, and the new passenger lounge have been warmly welcomed by those who work in or use the facilities. Two duty-free stores in the departure and arrival areas offer about four-times the retail space of the old international terminal.

At the same time, rental car operators also moved into new facilities at the south end of the redevelopment after working out of portacombs for nearly nine months. Hertz, Avis, Thrifty, Budget and Europcar have their own booths and a sixth is shared by smaller operators.

The company staff also moved into the refurbished administration offices after spending about six months in temporary accommodation in what are now the new conference facilities. The re-built offices feature new amenities, including a cafeteria area used by all those working at the airport.

Another to move back to old haunts is the iconic Southern Man. After riding off into the sunset to make way for Stage Two he eventually reappeared, in all his bronzed glory, in a refurbished setting, near the main entrance.

A new arrival already attracting much attention is the Otago Museum outpost display on the second level, adjacent to the top of the escalators. Entitled *Windows on Otago's Natural History* it is in similar format to the acclaimed *Southern Land, Southern People* exhibition at the museum and focuses on the human and natural history of the Taieri/Maungatua area in which the airport is located.

In keeping with current trends to make buildings as naturally sustainable as possible, the redeveloped terminal makes use of an environmentally friendly heating and ventilation system using groundwater pumped from the Taieri aquifer below the airport as its main source of energy. Once the heat is extracted at the surface, the water is injected back into the ground while in summer heat is taken out of the building and put it into the water before re-injecting it.

An 800Kva electricity generator easily capable of powering the airport complex in an emergency - but also set-up to come on during CPD (Congestion Period Demand) when electricity demand and power prices are high - is another notable inclusion. Apart from reducing power consumption at peak, it is also capable of exporting power to the grid. The options for doing this are currently being explored.

The commissioning of Stages Two and Three of the terminal effectively completed the public areas of the redevelopment. Stage Four focuses on back-of-house operations, such as converting the previous international arrivals building into a baggage make-up and screening area behind check-in. As the year drew to its close, this work is on target and due to be completed by September.

We are naturally delighted with the overwhelming and positive feedback on the new terminal. It is clear that people are enjoying using the new facilities and are proud that Dunedin now has an airport terminal befitting its status as one of the country's main centres and a growing tourist destination.

Domestic Services

Domestic passenger numbers continue to grow with Air New Zealand lifting capacity to meet demand.

While this has been positive, the negative for the year has been the ongoing Mt Cook Airlines industrial dispute that has resulted in last-minute cancellations and significant disruption to passengers and airport operations. Services operated by Mount Cook as Air New Zealand Link provide close to 50% of our capacity, including the heavily patronized Dunedin-Christchurch link. The company trusts that both sides quickly resolve their differences in the best interests of all parties.

International Services

Freedom Air continued to operate scheduled services to Sydney, Brisbane and – for part of the year – to Melbourne and Coolangatta. The small reduction in international passenger numbers therefore needs to be put in some sort of context.

The withdrawal of the Melbourne services at the end of March to Dunedin - as well as to Palmerston North and Hamilton - was most disappointing. Pleasingly, it has since been announced by Freedom that these will be reinstated on summer seasonal basis with the possibility of a return on a year-round basis. The Coolangatta service has also changed to a seasonal one, running from the beginning of July to the end of October.

The withdrawal of the year round Melbourne services impacted on the March to June quarter passenger statistics, but this has been pleasingly offset to a large degree by an increase in the Sydney services to three each week. Those to Brisbane continue to perform strongly with up to four services a week.

The overall reduction in the number of flights and the consequential reduction in revenue from landing fees has, however, been offset by increased fees resulting from the change from Boeing 737s to the larger Airbus A320s on the Trans-Tasman services operated by Freedom Air.

Trends and Changes

Tourism figures show Dunedin is bucking the national trend of a softening inbound tourism market by attracting increased visitor numbers with a positive increase of 3.9% for visitor arrivals to commercial accommodation within the city for the year ended 30 June 2006. These compare with the national average of -1%.

According to Tourism Dunedin, the Australian market has reached a plateau in growth compare to previous years, both for Dunedin and nationally. Nevertheless, Australia still showed growth compared to previous years both for Dunedin and nationally with an increase of 3.5% in commercial accommodation visitor nights to Dunedin as compared with a national increase of only 0.7%.

In the same period, international visitor nights to Dunedin have increased 4.6%. Australia continues to be Dunedin and New Zealand's largest market of international visitors. They make up 34% of all international visitor nights to Dunedin. They also make up 37% all international visitor arrivals to New Zealand. The increase this year of 3.5% is, however, comparatively small compared to the previous two years when growth was hovering around the 12% mark but needs to be measured against the national increase of 0.7%.

It remains to be seen how this trend will play out in terms of trans-Tasman travel and the local visitor market. Indicators suggest there will still be steady growth but at a slower rate than we have seen in recent years. Consolidation is probably the key word for the foreseeable future but much could turn on the proposed codeshare arrangement between Air New Zealand and Qantas and whether this will include Freedom and JetStar services.

It is very evident from information available to Tourism Dunedin and the company, that Australians flying into the airport on Freedom services are staying in the city and the region the airport serves. This makes the company's continued involvement in initiatives such as Project Gateway even more vital given the increased competition now faced from other regions.

Operational and Statutory Matters:

Pavements

A management and engineering plan has been developed for upgrading the apron, including an ongoing apron strengthening programme. An apron taxiway fillet has been built to allow A320 aircraft to access the Gate 1 airbridge. This provides us with two operational airbridges - one owned by the company, the other by Air New Zealand.

Planning

The proposal to include an Airport Zone in the Dunedin District Plan is now well-advanced. The company is working closely with the Dunedin City Council on the necessary variation and it is anticipated that this will be formally notified by the end of this year.

Sewage Effluent Discharge

Plans for a vastly upgraded waste water discharge system to serve the airport are currently before the Environment Court.

At the Consent Hearing held by the Otago Regional Council earlier this year, the company put forward a revised \$300,000 scheme that substituted a membrane filtration treatment plant for the originally proposed wetland treatment process. As a result, waste water from the new plant is to be treated to contact recreation standards before being discharged into the Main Drain which runs through the Taieri Plain. The discharge will thus be superior to that currently being carried in the Main Drain and it is anticipated that the receiving water bodies of the Main Drain, Lakes Waipori and Waihola, will benefit accordingly.

Given the step up to the membrane filtration process from what was originally proposed, the company considered it reasonable to apply to the Otago Regional Council for a 20-year consent, so the capital cost and depreciation could be spread over a longer period. While the Consent was initially granted for 12-years, the company subsequently reached agreement with the Otago Regional Council to extend it to 20 years. That agreement is now before the Environment Court.

Future developments

During the year ahead, it is planned to move the rental car service depots from their present location to a purpose-built development to the south of the car park that will provide far better facilities for the companies involved and is close to their client facilities in the terminal building. The move from the main carpark will free-up an area that will be developed into an additional 100 car parking spaces and also improve movement into and the appearance of the main carpark entrance.

Looking Ahead

With the terminal redevelopment project all but behind us the company now looks forward to making this excellent new asset work to maximum benefit. We are confident that being able to offer a facility of this standard will pay dividends in terms of further cementing our place in the international and domestic visitor market.

The directors are satisfied with the state of the company's affairs and its future direction. As we move ahead we remain committed to developing the company and the level of service we provide to airlines and airport users alike, and doing all we can to enhance the life and economy of the region we serve.

Richard Walls
Chairman

John McCall
Chief Executive

airlines using dunedin international airport

For the year-ended 30 June 2006

Airline	Aircraft Type
Domestic	
Air New Zealand	Boeing 737-300
Mount Cook Airline	ATR 72
International	
Freedom Air International	Airbus 320-200
Charter, flight training and commuters	
Mainland Air Services	Cessna 152
	Piper Chieftain PA31-350
	Piper PA34-200 Seneca
	Piper PA28-181 Cherokee
	Piper PA34-220 Seneca
	Piper PA28-161 Cherokee
Freight services	
New Zealand Post - Airpost	Fairchild Metroliner 23
	Piper PA32-300

statement of service performance

The following is a statement of service performance relating to specific objectives listed in the Company's Statement of Corporate Intent for the year ending 30 June 2006.

FINANCIAL PERFORMANCE

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

	ACTUAL	BUDGET
	\$	\$
Surplus before taxation	1,184,394	882,035
Operating surplus after taxation	781,344	575,123
Return on closing shareholders equity	3.3%	2.4%
Return on shareholders capital contributed and retained profits	6.2%	4.5%
Closing shareholders' equity	23,983,382	23,766,236
Dividend paid	765,000	868,000

Revenue for the year was 2.5% above budget while expenses were 0.6% below budget. The operating surplus of \$781,344 was 35.9% above budget. Revenue increases resulted from a small increase in the number of domestic flights and the introduction of the larger A320 aircraft by Freedom Air providing an increase in landing fees. However the number of international flights were below budget following the withdrawal of the Melbourne service in March 2006. This service is being reinstated for the October 2006 to March 2007 period. Terminal concession and rental incomes, carpark and dairy farm revenues were also above budget. While airfield maintenance costs, sewage treatment consent fees and depreciation on the new terminal fit out were above budget interest; dairy farm and marketing costs were below budget.

TOURISM

To actively participate with regional tourism and travel organisations and operators to market Dunedin and the southern region as a destination for international and domestic visitors with Dunedin Airport as the air transport gateway.

The Company is a financial member of the Tourism Industry Association. The Chief Executive is actively involved in the local tourism industry as a member of the Board of Tourism Dunedin, a director of Taieri Gorge Railway Limited and as a member of The Project Gateway Control Group.

PROJECT GATEWAY

In partnership with the Dunedin City Council, the Otago Chamber of Commerce and Tourism Dunedin continue to implement the objectives as outlined in the development strategy report of Project Gateway.

The Chief Executive is a member of the Project Gateway Control group, which meets regularly to implement the objectives of Project Gateway. Project Gateway seeks the introduction of direct daily return passenger and freight services from Dunedin to Australia.

AIRSIDE PAVEMENTS

To continue with a management strategy that maintains airside pavement assets which satisfy safety and economic requirements.

Airside pavements were maintained in good condition during the year to satisfy safety, operational and economic requirements.

OPPORTUNITIES

To continue to seek new opportunities which promote the use of Dunedin International Airport and adds value to the business.

The new terminal will provide opportunities for growth from new and existing concession holders previously restricted by the physical limitations of the former terminal. Management continue to have open dialogue with airline and charter operators who may be potential users of Dunedin International Airport.

CUSTOMER SERVICE

To provide facilities to ensure that the Company can be responsive to meeting the expectations of its customers in terms of the provision of airport facilities and services.

The new terminal will provide facilities which will allow to be responsive to meeting the expectation of its customers.

PERFORMANCE

To perform continual reviews of the operating strategies, financial performance and service delivery of the Company.

The Board of Dunedin International Airport Limited meets monthly to review the operating strategies and financial performance of the Company. The Board reviews the Company's actual results against strategic plans and financial budgets. A business plan and a Statement of Intent are presented to shareholders annually.

To monitor financial performance against rates of return established by the shareholders of the Company.

The Company's annual Business Plan and Statement of Intent include forecasted rates of return which are forwarded to shareholders for review and approval. Quarterly, six monthly and annual reports measure the Company's performance against the forecasted rates of return.

To ensure that the reporting requirements of shareholders are met.

In addition to the half year and annual report the Company also produces quarterly reports, a Statement of Intent and a Business Plan for shareholders

TRAINING

To continue with employee training and education programmes that will ensure that employees will be able to meet the changing needs of the Company and its customers in terms of customer service, safety and security.

All staff are involved in both internal and external staff training programs. Management training, Kiwi Host, First Aid and hot fire training are examples of external training courses attended by staff during the year.

SOCIAL AND ENVIRONMENTAL

To continually review the Company's operations to identify any potential environmental issues.

Management continually monitor and review environmental issues affecting the airport. The Company works closely with the Otago Regional Council regarding compliance with the Resource Management Act.

To maintain management practices to ensure that the Company meets its employment and health and safety objectives.

A Health and Safety committee meets to review health and safety objectives and implements management practices to achieve these objectives. Monthly staff meetings identify items of health and safety that need to be brought to management's attention.

trend statement

For the year-ended 30 June	2006	2005	2004	2003	2002
REVENUE					
Operating Revenue:					
Aeronautical	2,551,526	2,474,990	2,349,822	2,169,365	1,999,640
Percentage	38.5%	39.7%	39.2%	41.3%	38.4%
Non-aeronautical	3,960,680	3,646,315	3,515,431	2,959,581	2,701,586
Percentage	59.8%	58.4%	58.7%	56.4%	51.9%
Interest Income	882	25,012	71,029	20,049	26,613
Gain on Investments	111,413	95,718	54,813	96,500	475,875
Total Revenue	6,624,501	6,242,035	5,991,095	5,245,495	5,203,714
Percentage Increase	6.1%	4.2%	14.2%	0.8%	23.8%
Surplus Before Tax	1,184,394	2,362,709	2,610,784	2,096,500	2,413,262
Percentage Increase	-49.4%	-9.5%	24.5%	-13.1%	121.9%
Net Tax Paid Surplus	781,344	1,423,991	1,684,500	1,258,244	1,610,160
Percentage Increase	-45.1%	-15.5%	33.9%	-21.9%	121.4%
Shareholders' Equity					
Shareholders' Equity ¹	23,983,382	23,967,038	23,529,047	22,555,547	20,131,680
Return on Shareholders' Equity	3.3%	5.9%	7.2%	5.6%	8.0%
Return on Shareholders' Capital contributed and retained profits	6.2%	11.3%	13.3%	10.8%	14.5%
Dividends Paid ²	765,000	986,000	711,000	683,000	571,000
Dividend Rate Cents per Share	8.7	11.2	8.1	7.8	6.5
Capital Expenditure	15,322,313	11,075,917	1,149,081	99,868	169,611
Net Operating Cashflow	2,257,421	2,600,848	2,685,682	1,785,119	2,455,722
Net asset backing per share	\$2.73	\$2.72	\$2.67	\$2.56	\$2.29
Proprietorship Ratio	50.1%	71.5%	97.5%	97.9%	90.5%

1. Includes property revaluations of \$8.9m at 30 June 2000, \$1.8 million at 30 June 2003 and a bonus issue of \$4.4m in October 2000.

2. A final dividend of 3.8 cents per share will be paid in November 2006 making a total dividend for the year of 4.6 cents per share.

statement of financial performance

For the year-ended 30 June	Notes	2006	2005
Operating revenue		6,512,206	6,121,305
Interest received		882	25,012
Gain on investment		111,413	95,718
Total revenue		6,624,501	6,242,035
Total expenses		5,440,107	3,879,326
Operating surplus before income tax	4	1,184,394	2,362,709
Income tax	10	403,050	938,718
Operating surplus after income tax		781,344	1,423,991

statement of movements in equity

For the year-ended 30 June	Notes	2006	2005
Equity at the beginning of the year		23,967,038	23,529,047
Operating surplus after income tax		781,344	1,423,991
Total recognized revenues and expenses		24,748,382	24,953,038
Distributions to owners			
Final dividend paid - 2005		698,000	830,000
Interim dividend paid - 2006		67,000	156,000
		765,000	986,000
Equity at the end of the year		23,983,382	23,967,038

This statement is to be read in conjunction with the notes on pages 13 to 19

statement of financial position

For the year-ended 30 June

	Notes	2006	2005
Equity			
Share capital	3	8,800,000	8,800,000
Reserves	5	15,183,382	15,167,038
Shareholders' equity		23,983,382	23,967,038
Represented by:			
Current assets			
Receivables and prepayments	7	664,506	690,272
Provision for taxation	10	580,208	-
Total current assets		1,244,714	690,272
Less current liabilities			
Payables and accruals	8	2,341,164	2,479,530
Provision for taxation	10	-	50,898
Bank overdraft	6	829,337	20,418
Total current liabilities		3,170,501	2,550,846
Working capital (deficit)		(1,925,787)	(1,860,574)
Non-current assets			
Fixed assets	11	45,436,683	31,651,323
Investments	12	1,193,438	1,108,848
Deferred taxation	10	-	67,441
Total non-current assets		46,630,121	32,827,612
Less non-current liabilities			
Term loans	13	20,240,000	7,000,000
Deferred taxation	10	480,952	-
Total non-current liabilities		20,720,952	7,000,000
		23,983,382	23,967,038

For and on behalf of the directors.

R F Walls
Chairman
18 August 2006

L J Brown
Director

This statement is to be read in conjunction with the notes on pages 13 to 19.

statement of cashflows

For the year-ended 30 June	Notes	2006	2005
Cash flow from operating activities			
Cash was provided from:			
Receipts from customers		6,537,104	5,898,850
Interest received		882	25,142
Cash was applied to:			
Payments to suppliers and employees		2,654,296	2,183,366
Interest paid		1,140,506	125,986
Income tax paid		485,763	1,013,792
Net cash flows from operating activities	9	2,257,421	2,600,848
Cash flows from investing activities			
Cash was provided from:			
Sale of shares		26,823	-
Cash was applied to:			
Purchase of fixed assets		15,568,163	9,456,581
Net cash flows from investing activities		(15,541,340)	(9,456,581)
Cash flows from financing activities			
Cash was provided from loans advanced			
		13,240,000	7,000,000
Cash was applied to:			
Dividends paid		765,000	986,000
Net cash flows from financing activities		12,475,000	6,014,000
<hr/>			
Net increase/(decrease) in cash held		(808,919)	(841,733)
Plus Opening cash brought forward		(20,418)	821,315
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Closing cash held 30 June 2006		(829,337)	(20,418)
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This statement is to be read in conjunction with the notes on pages 13 to 19.

notes to financial statements

For the year-ended 30 June 2006

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. STATEMENT OF ACCOUNTING POLICIES

- 2.1 These financial statements comprise all of the activities of Dunedin International Airport Limited which operates the commercial airport at Dunedin.

The financial statements have been prepared in terms of Section 223(e) of the Local Government Amendment Act (No 2) 1989 and in accordance with the Financial Reporting Act 1993. The general policies adopted in the preparation of these financial statements are:

- unless otherwise stated the measurement base adopted is that of historical cost;
- revenues earned are matched with expenses incurred using accrual accounting except for income from investments which is credited to the Statement of Financial Performance upon receipt.

- 2.2 The following are the particular accounting policies which have a material effect on the measurement of results and financial position.

2.2.1 Current assets

Accounts receivable are valued at net realisable value.

2.2.2 Non-current assets

Property, plant and equipment Initial Recording

The cost of purchased property, plant and equipment is the value of the consideration given to acquire the assets and the value of other directly attributable costs which have been incurred in bringing the assets to the location and condition necessary for their intended service.

The cost of self-constructed assets includes the cost of all materials used in construction, direct labour on the project, costs of obtaining Resource Management Act consents and an appropriate proportion of variable and fixed overheads.

Revaluations

Land, runway, apron, taxiway, rental housing and buildings are revalued by independent registered valuers on the basis of fair value for highest and best use. Highest and best use is defined as the most probable use of an asset that is physically possible, appropriately justified, legally permissible, financially feasible and which results in the highest value. The revaluations are conducted on a systematic basis so that each asset is revalued at least every 5 years. The most recent revaluation was completed at 30 June 2003. In previous years, land and buildings were revalued on an economic value basis for the existing use of the asset. Where fair value of the asset is not able to be reliably determined using market based evidence, depreciated replacement cost is considered to be the most appropriate basis for determination of fair value. This situation will usually only arise where an asset is specialised or the only transaction price evidence arises in a monopoly context.

2.2.3 Depreciation

Depreciation has been charged so as to write off the cost or valuation of depreciable fixed assets over their estimated useful lives. The depreciation rates used are the maximum rates allowable by the Inland Revenue Department except for the depreciation rates used on the original runway and the terminal redevelopment where higher rates are used. For the major classes of fixed assets the rates used are as follows:

Runway, apron & taxiway	3% to 6.66% of cost
Buildings	1%-5% of cost
Machinery and plant	10%-12.5% diminishing value
Motor vehicles	20%-25% diminishing value
Fixtures, fittings, office & computer equipment	20%-40% diminishing value and 4%-50% of cost.

2.2.4 Goods and services tax

The financial statements have been prepared with both income and expenditure items exclusive of GST. In the Statement of Financial Position accounts receivable and accounts payable are both inclusive of GST. Other assets and liabilities are exclusive of GST.

2.2.5 Investments

Investments are recorded at market value.

2.2.6 Taxation

The taxation charged against the profit for the year is the estimated total liability in respect of that profit calculated at the present rate of taxation after allowing for permanent and timing differences and after taking account of all allowances and concessions. Deferred taxation is calculated using the liability method applied on a comprehensive basis.

2.2.7 Runway renewal

When major renewals occur the expenditure is capitalised to the appropriate fixed asset accounts. Depreciation is calculated on the basis of writing off the runway renewal over its estimated economic life.

2.2.8 Financial instruments

Financial instruments with off balance sheet risk are used by the Company to reduce exposure to fluctuations in interest rates. These financial instruments are subject to interest rate risk as the market rates may change subsequent to acquisition. Financial instruments entered into as hedges of an underlying position are accounted for on the same basis as the underlying position. Hedges or swaps of interest rate exposure are accounted for as the interest payments and receipts are accrued over time.

2.3 There have been no changes in accounting policies during the year to 30 June 2006. All policies have been applied consistent with those applied in previous years.

3. SHAREHOLDERS' EQUITY

	2006	2005
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.

4. SURPLUS FROM OPERATIONS

Included in the surplus from operations are the following:

	2006	2005
Audit fees	12,150	9,950
Directors fees	60,000	60,000
Interest paid – term	1,173,374	140,393
Depreciation	1,536,953	1,147,200
Loss on disposal	-	97,093

(a) Fees paid to auditors for other services were \$10,438 (2005 nil)

5. RESERVES

5.1 Retained earnings

Balance at beginning of year	3,786,240	3,861,369
Net surplus for year	781,344	1,423,991
Less reversal of revaluation on demolished building	-	(513,120)
	4,567,584	4,772,240
Dividends paid	765,000	986,000
Balance at 30 June 2006	3,802,584	3,786,240

5.2 Revaluation reserve

Balance at beginning of year	11,380,798	10,867,678
Reversal of revaluation on demolished building	-	513,120
Balance at 30 June 2006	11,380,798	11,380,798
Total reserves	15,183,382	15,167,038

6. CASH AND BANK BALANCES

Cash floats	700	700
Westpac cheque account	39,963	(21,118)
Short term advance	(870,000)	-
	(829,337)	(20,418)

7. RECEIVABLES & PAYMENTS

Trade receivables	475,965	398,484
Prepayments	4,337	5,205
GST refund	184,204	286,583
	664,506	690,272

8. PAYABLES AND ACCRUALS

Trade creditors	1,533,824	2,047,914
Employee entitlements	153,252	121,042
Accrued expenses	654,088	310,574
	2,341,164	2,479,530

	2006	2005
9. RECONCILIATION OF NET SURPLUS AFTER TAXATION TO CASH FLOWS FROM OPERATING ACTIVITIES		
Operating surplus after taxation	781,344	1,423,991
Less:		
Increase in value of investments	(111,413)	(95,718)
Add back:		
Depreciation	1,536,953	1,147,200
Loss on disposal	-	97,093
(Increase)/Decrease in accounts receivable	25,766	(214,487)
Increase/(Decrease) in deferred taxation	548,393	(102,593)
Increase/(Decrease) in accounts payable	(138,366)	1,937,180
Less Items classified as investing activities	245,850	(1,619,337)
Increase/(Decrease) in provision for taxation	(631,106)	27,519
Net cash flows from operating activities	2,257,421	2,600,848

10. COMPANY TAXATION PROVISION

10.1 Income Tax

The charge for taxation for the year ended to 30 June 2006 has been calculated as follows:

Operating surplus before taxation	1,184,394	2,362,709
Less gain on investment	(111,413)	(95,718)
Plus permanent differences	123,467	576,366
	1,196,448	2,843,357
Taxation @ 33%	394,828	938,307
Prior period adjustment	8,222	411
Taxation charge	403,050	938,718
Being:-		
Current taxation	(145,343)	1,041,311
Deferred taxation	548,393	(102,593)
	403,050	938,718

Taxation shown in the statement of financial position consists of:

Terminal tax	50,898	23,379
Taxation provision for the year	(145,343)	1,041,311
	(94,445)	1,064,690
Provisional tax paid	(423,000)	(990,000)
(Terminal tax paid)/Refund received	(62,763)	(23,792)
Net taxation payable/(refund due)	(580,208)	50,898

10.2 Deferred taxation liability/(asset)

Balance as at beginning of year	(67,441)	35,152
Movement for the year	548,393	(103,873)
Prior period adjustment	-	1,280
Balance at 30 June 2006	480,952	(67,441)

2006 **2005**

10.3 Imputation credits

Balance available at beginning of year	2,509,594	1,981,322
Income tax paid	486,167	1,013,792
Imputation credits attached to Dividends paid	376,791	485,520
<hr/>		
Balance available at 30 June 2006	2,618,970	2,509,594

11. FIXED ASSETS

11.1 Fixed Assets	Cost or Valuation	Accumulated Depreciation	Book Value 2006	Book Value 2005
At valuation:				
Land and Improvements	11,018,532	370,947	10,647,585	10,782,983
Runway, Apron, Taxiway	9,505,025	1,753,089	7,751,936	8,097,762
Buildings	14,717,629	902,268	13,815,361	1,757,726
Rental Housing	940,430	54,887	885,543	904,351
Capital Work in Progress	979,620	-	979,620	9,590,148
At cost:				
Furniture & Equipment	11,675,309	752,801	10,922,508	58,220
Vehicles	462,989	340,743	122,246	149,202
Plant & Equipment	752,639	440,755	311,884	310,931
<hr/>				
	50,052,173	4,615,490	45,436,683	31,651,323

11.2 Land, buildings & airside pavements

Land, buildings and airside pavements were revalued at 30 June 2003 at their fair value by Ernst & Young, Wellington branch, independent registered valuers. All other fixed assets are valued on an historical cost basis.

11.3 Company Property Valuation

The latest rating valuations at 1 July 2004 of the Company's property are as follows:

Land	8,750,000
Buildings and Improvements	16,825,000
	<u>25,575,000</u>

11.4 Cumulative expenditure

Cumulative expenditure on the terminal redevelopment at 30 June 2006 was \$24,325,610 (2005 \$9,590,148)

12. INVESTMENTS

Shares at market value in farmer co-operative	2006	2005
Companies involved with dairy farm operations	1,193,438	1,108,848

Of this sum \$1,187,167 (2005, \$1,102,241) 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.

13. TERM LOANS

Westpac has provided a Wholesale Term Loan of \$22 million with a maturity date of 31 December 2007 and an 18 month revolving multi option credit line facility of \$3.0 million. 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.

Rate	2006	2005
Wholesale term loan facility 7.95%	20,240,000	7,000,000

14. CAPITAL COMMITMENTS

Capital expenditure not provided for in the accounts at 30 June 2006 was \$24million (2005\$1.8m).

15. CONTINGENCIES

There were no other contingent liabilities outstanding at 30 June 2006 (2005 nil).

16. RELATED PARTY TRANSACTIONS

The shareholders of the Company are The Crown and Dunedin City Holdings Limited, which is wholly owned by the Dunedin City Council. Each own 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 have a substantial interest and which provided services/supplies to the Company on an arms length commercial basis during the year were:

Dunedin City Council (R F Walls – elected member) – rates and services
Details of purchases for the year and balances owing at 30 June 2006 are as follows:-

	Purchases for year		Owing at 30 June	
	2006	2005	2006	2005
Dunedin City Council	127,903	160,782	-	-
	127,903	160,782	-	-

17. SEGMENT INFORMATION

In accordance with the accounting standard SSAP23, Dunedin International Airport Limited operates in one geographic segment at Momona, 30 km from Dunedin City. The Company operates in the airport industry and earns income from aeronautical and related activities. In addition the Company operates two diary farms on land held for future airport development.

	Airport		Dairy Farm		Total	
	2006	2005	2006	2005	2006	2005
Trading Income	6,137,288	5,829,189	375,800	317,128	6,513,088	6,146,317
Gain on Investments	-	3,073	111,413	2,645	111,413	95,718
Segment Revenue	6,137,288	5,832,262	487,213	09,773	6,624,501	6,242,035
Segment Net Surplus before Taxation	875,544	2,161,310	308,850	201,399	1,184,394	2,362,709
Segment Assets	43,776,745	29,528,180	4,098,090	3,989,704	47,874,835	33,517,884

18. FINANCIAL INSTRUMENTS

Off balance sheet risk

Forward rate agreements have been entered into in order to manage interest rate exposure. Fluctuations in interest rates give rise to market risk that the instrument may change in value over time.

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.

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

90.8% of trade debtors are due from six customers. These receivables are considered to be fully recoverable.

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

Fair Values

The estimated fair values of the Company's financial instruments at 30 June 2006 are as follows:

	2006	2005
Carrying Amount		
Receivables and securities	664,506	403,689
Bank overdraft	(829,337)	(20,418)
Westpac Term Loan	(20,240,000)	(7,000,000)
Fair Values		
Receivables and securities	664,506	403,689
Bank overdraft	(829,337)	(20,418)
Interest rate forward rate agreement	116,856	3,392
Westpac term loan	(20,240,000)	(7,000,000)

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practical to estimate that value:

- i) Interest Rate Swaps, Options and Forward Rate Agreements
The fair value of interest rate forward rate agreements is estimated based on the quoted market prices of those instruments.
- ii) Cash and Liquid Deposits, Short Term Debt and Bank Overdraft
The carrying amount of these is equivalent to the fair value.

Interest Rate Risk

The Company makes use of forward rate agreements to reduce the volatility of interest rates on its term borrowings from other financial intermediaries.

Credit Facilities	2006	2005
The Company has facilities as follows:		
Overdraft	100,000	100,000
Bill and Term Loan Facilities		
Bill and term loan facilities from other financial intermediaries including interest rate risk management facilities	25,000,000	21,500,000

SHAREHOLDER INFORMATION

Interests Register

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

Richard Walls

Dunedin City Council
 Forever Fashions Ltd
 Otago Museum Trust Board
 Otago Settlers Museum Board of Management
 The Aramoana Relief Trust Inc
 The Otago Cricket Trust Inc
 Wordstruck: Festival of New Zealand Writing

Stuart McLauchlan

A D Instruments Pty
 Cargill Holdings 2002 Ltd
 Dunedin Casinos Ltd
 G S M Ltd
 G S McLauchlan & Co.
 G S M Trustees Ltd
 Highlanders Rugby Trust Ltd
 New Zealand Sports Hall of Fame
 Reliance Trading Company Ltd
 Scenic Circle Hotels Group
 SJM Forests Ltd
 University of Otago
 Wagstaff Holdings Ltd
 Wavell Resources Ltd

Lindsay Brown

Elected Member	Ashburn Hall Charitable Trust	Trustee
Director	Awakino Station Ltd	Director
Member	Contract Cultivation Ltd	Director
Director	Mercy Hospital Dunedin Ltd	Director
Trustee	Mornington P.H.O Trust	Chairman
	Otago Innovation Ltd	Chairman
Trustee	Panmure Orchards Ltd	Director
	University of Otago	Chancellor
	University of Otago Foundation Trust	Chairman
Director	University of Otago Holdings Ltd	Chairman
Director	Technology Holdings Ltd	Chairman

Geoffrey Thomas

Partner	Anderson Lloyd Caudwell Associated Companies	Director
Director	A. L Tenancy Holdings Ltd	Director
Chairman	Calvert & Co. Trustees Ltd	Director
Governors	Coc Properties Ltd	Director
Director	Coronation Property Pool Ltd	Director
Director	Crystal Resources Ltd	Director
Director	Dunedin Casinos Ltd	Director
Councillor	Drivers Road Trust Company Ltd	Director
Director	Fund Managers Group	Director
Director	HBC Trustee Ltd	Director
	H E Thomas Ltd	Director
	M H Trustee Holdings Ltd	Director
	Principals Advice & Support Ltd	Director
	Rattray Properties Ltd	Director
	Scriptpro NZ Ltd	Director
	SNL Trust Ltd	Director
	Swing Thru Group	Director
	Technology Holdings Group	Director

Directors' Interests in Contracts

Details of contracts involving directors' interests entered into during the year ended 30 June 2006 are provided in Note 15 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 Director's 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 and 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 Directors

The directors of Dunedin International Airport Limited and their remuneration for the year ended 30 June 2006 are as follows:

Director	Qualification	Responsibilities	Remuneration
Richard F Walls	QSO, JP, FNZIM	Chairman	\$19,500
Stuart J McLauchlan	BCom, CA(PP)	Non-Executive Director	\$16,500
Lindsay J Brown	BCom	Non-Executive Director	\$13,500
Geoffrey R. Thomas	LLB	Non-Executive Director	\$2,250
Susie Staley	LLB	Retired April 2006	\$11,250

In addition to directors fees of \$13,500, Mr Stuart McLauchlan received consultancy fees of \$3,000 during the year for work relating to the terminal redevelopment project.

Mr S J McLauchlan retires by rotation in accordance with the constitution of the Company and, being eligible, offers himself for re-election.

Director's 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:

<u>Remuneration Range</u>	<u>Number of employees</u>
\$100,000 - \$110,000.	2
\$200,000 - \$210,000	1

The directors are not aware of any other matters or circumstance 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
18 August 2006

L J Brown
Director

AUDIT REPORT

TO THE READERS OF DUNEDIN INTERNATIONAL AIRPORT LIMITED'S FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION FOR THE YEAR ENDED 30 JUNE 2006

The Auditor-General is the auditor of Dunedin International Airport Limited (the company). The Auditor-General has appointed me, Graham William Crombie, using the staff and resources of Polson Higgs, to carry out the audit of the financial statements and performance information of the company, on his behalf, for the year ended 30 June 2006.

Unqualified Opinion

In our opinion:

- The financial statements of the company on pages 7 to 21:
 - comply with generally accepted accounting practice in New Zealand; and
 - give a true and fair view of:
 - the company's financial position as at 30 June 2006; and
 - the results of its operations and cash flows for the year ended on that date.
- The performance information of the company on pages to gives a true and fair view of the achievements measured against the performance targets adopted for the year ended 30 June 2006.
- Based on our examination the company kept proper accounting records.

The audit was completed on 18 August 2006, and is the date at which our opinion is expressed.

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

Basis of Opinion

We carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed our audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements and performance information did not have material misstatements, whether caused by fraud or error.

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 the opinion.

Our audit involved performing procedures to test the information presented in the financial statements and performance information. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Board of Directors;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all required disclosures are adequate.

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

We evaluated the overall adequacy of the presentation of information in the financial statements and performance information. We obtained all the information and explanations we required to support the opinion above.

Responsibilities of the Board of Directors and the Auditor

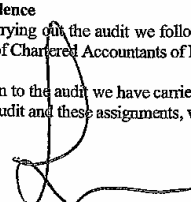
The Board of Directors is responsible for preparing financial statements in accordance with generally accepted accounting practice in New Zealand. Those financial statements must give a true and fair view of the financial position of the company as at 30 June 2006. They must also give a true and fair view of the results of its operations and cash flows for the year ended on that date. The Board of Directors is also responsible for preparing performance information that gives a true and fair view of the service performance achievements for the year ended 30 June 2006. The Board of Directors' responsibilities arise from the Local Government Act 2002 and the Financial Reporting Act 1993.

We are responsible for expressing an independent opinion on the financial statements and performance information and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001 and section 70 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 Institute of Chartered Accountants of New Zealand.

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.


Graham William Crombie, Polson Higgs
On behalf of the Auditor-General, Dunedin, New Zealand

Company particulars

Directors

R F Walls, QSO, JP, FNZIM (Chairman)
L J Brown, B Com, (Chairman – Audit Committee)
S J McLauchlan, B Com, CA(PP) (Member – Audit Committee)
G R Thomas, LLB

Chief Executive

F J McCall, AFNZIM

Business Manager

P Ford, B Com, CA

Registered Office

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Website www.dunedinairport.co.nz

Bankers

Westpac
101 George Street
DUNEDIN

Solicitors

Galloway Cook Allan
276 Princes Street
DUNEDIN

Auditors

Graham William Crombie of Polson Higgs
On behalf of the Auditor-General