

INTERIM REPORT

SIX MONTHS ENDED 31 DECEMBER 2006




Dunedin
International
Airport
LIMITED

Revenue increased by 6.1% Assets increased by 17.6% to nearly \$50 million New \$26 million airport terminal officially opened Dunedin International Airport won NZAA Airport of the Year Award



Chairman's Report

While it is pleasing to again report an increase in gross revenue, that is offset by a disappointing (but not unexpected) decline in passenger movements for the period under review.

The continuing gain in domestic passengers failed to offset the drop in international passenger numbers on Freedom Air services to and from Australia. This reflects the change to the Melbourne service from year round to seasonal (October to March) and the heightened competition between airlines on the trans-Tasman routes.

Unfortunately Air New Zealand's response has been to chop and change the frequency of Freedom Air services into and out of Dunedin. Monitoring research undertaken by the company as a contribution to 'Project Gateway' indicates that this results in passengers diverting to other ports, in particular Christchurch where unlike Dunedin, Air New Zealand faces fierce competition from other airlines.

The company and its partners in Project Gateway; the Dunedin City Council, Tourism Dunedin and the Otago Chamber of Commerce, believe that with 'the Battle for Southern New Zealand' between competing airlines it is timely to step-up the marketing to airlines of the strengths of Dunedin. The airport and the city form the natural gateway to the region which is now achieving wide recognition as a tourist destination in itself. The company is working very closely with Tourism Dunedin to vigorously progress this in 2007.

Gross revenue of \$3,440,315 compares to \$3,242,374 for the same period in 2005, an increase of 6.1%.

Aeronautical revenue of \$1,320,274 compares to \$1,298,509 (+1.7%); while non-aeronautical revenue of \$2,119,598 compares to \$1,943,291 (+9.1%).

Expenditure for the six months of \$3,421,525 compares to \$2,637,640 (+29.7%). This includes an increase in depreciation and interest expense following the redevelopment of the terminal which was completed during the period.

The **operating surplus**, after taxation, of \$12,601 compares to \$405,172 for the same period in 2005, a decrease of 96.9%, again reflecting the redevelopment of the terminal.

Total passenger movements have declined to 352,243 from 357,101 (-1.4%) with domestic passenger movements increasing to 311,227 from 305,576 (+1.8%) and international passenger movements decreasing to 41,016 from 51,525 (-9.4%).

The **financial statements** have been prepared in accordance with New Zealand equivalents to International Financial Reporting Standards (NZIFRS) and International Financial Reporting Standards (IFRS) for the first time. The comparative figures for the six months ended 31 December 2005 have been restated to comply with NZIFRS.

Terminal Redevelopment

The fourth and final stage of the terminal redevelopment comprising of the baggage handling and associated facilities in the former international arrivals area was completed in August. It is a tribute to all involved that this final stage came in, on time, as did the three previous stages.

Over 200 guests attended the official opening of the redeveloped terminal on Wednesday 11 October, testifying to the importance of the \$26 million dollar project to the city and region. The fabulous video, *Southern Land Southern People Southern Sky*, produced by Natural History New Zealand especially for the occasion, drew an enthusiastic response from those attending. The DVD now forms part of the company's marketing portfolio and has already featured at airport/aviation conferences recently held in New Zealand and Australia.

Airport of the Year Award

At the New Zealand Airports' Association conference held in November, Dunedin International Airport was named 'Airport of the Year'.

Operational and Statutory Matters

With all outstanding issues before the Environment Court resolved, progress is now being made with the construction of the \$300,000 upgrade of the airport's sewage treatment plant. As previously reported, 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. This makes it superior to that currently being carried in the main drain and the receiving water bodies of that drain – Lakes Waipori and Waiholo – will benefit accordingly.

The proposal to include an airport zone in the Dunedin District Plan is now in its final stages and expected to be formally notified by the Dunedin City Council in March of 2007. The proposed zone will include areas of land currently zoned Rural, Residential 6 and Industrial 1 and provides for appropriate airport related activities to establish and operate at the airport to a standard more consistent with the appropriate amenity and environmental standards and the overall integrity of the Dunedin District Plan.

Planned Developments

Planning and negotiations to the planned relocation of the rental car buildings dotted around the carpark to a purpose built facility to the south of the carpark are almost complete and is projected to be completed in the latter part of 2007. Their relocation will provide room for another 100 car parks and an uncluttered improved entrance into the already expanded carpark opened earlier in 2006.



General

An interim dividend is not being paid at this time. The payment of a final dividend for 2007 will be determined when the audited annual accounts are completed. The directors are satisfied with the state of the company's affairs.

Richard Walls

Chairman

14 February 2007

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 Thomas, LLB

Chief Executive

F J McCall, AFNZIM

Business Manager

P Ford, B Com, CA

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Bankers

Westpac Trust
 101 George Street, Dunedin

Solicitors

Galloway Cook Allan
 276 Princes Street, Dunedin

Auditors

Graham William Crombie
 of Polson Higgs & Co on behalf of the
 Controller and Auditor-General

Summary of financial results for the six months ended 31 December 2006

	Unaudited 6 months to 31 December 2006	Unaudited 6 months to 31 December 2005	Audited Year to 30 June 2006
Operating revenue	3,439,872	3,241,799	6,512,206
Interest income	443	575	882
Gain on investments	-	-	111,413
Gross revenue	3,440,315	3,242,374	6,624,501
Surplus before taxation	18,790	604,734	1,184,394
Net tax paid surplus	12,601	405,172	922,213
Return on shareholders equity (annualised)	0.05%	1.8%	4.2%
Capital expenditure	3,923,105	10,893,380	15,568,163
Dividend paid	335,000	698,000	765,000
Net asset backing for share	\$2.48	\$2.43	\$2.49
Proprietorship ratio	43.9%	50.8%	45.7%

Summary of financial performance for the six months ended 31 December 2006

	Unaudited 6 months to 31 December 2006	Unaudited 6 months to 31 December 2005	Audited Year to 30 June 2006
Operating revenue	3,439,872	3,241,799	6,503,427
Interest received	443	575	882
Bad debts recovered	-	-	8,779
Gain on investment	-	-	111,413
Total revenue	3,440,315	3,242,374	6,624,501
Audit fees	5,250	5,075	13,500
Directors fees	30,000	30,000	60,000
Interest paid – term	874,552	457,002	1,173,377
Depreciation	1,057,001	824,011	1,536,953
Operating expenses	1,454,722	1,321,552	2,656,277
Total expenses	3,421,525	2,637,640	5,440,107
Operating surplus before income tax	18,790	604,734	1,184,394
Income tax	6,189	199,562	253,959
Tax prior year adjustment	-	-	8,222
Operating surplus after income tax	12,601	405,172	922,213

Statement of movements in equity

Equity at the beginning of the year	21,913,851	21,678,345	21,678,345
Operating surplus after income tax	12,601	405,172	922,213
Cash flow hedges gain taken to equity	199,511	32,956	78,293
	22,125,963	22,116,473	22,678,851
Distribution to owners:			
Interim dividend paid	-	-	(67,000)
Final dividend	335,000	(698,000)	(698,000)
Closing equity	21,790,963	21,418,473	21,913,851

The accompanying notes form an integral part of these financial statements

Summary of financial position as at 31 December 2006

	Note	Unaudited 6 months to 31 December 2006	Unaudited 6 months to 31 December 2005	Audited Year to 30 June 2006
Shareholders' equity				
Share capital		8,800,000	8,800,000	8,800,000
Hedge reserve		277,801	32,956	78,290
Retained earnings		12,713,162	12,585,517	13,035,561
		<u>21,790,963</u>	<u>21,418,473</u>	<u>21,913,851</u>
Current liabilities				
Payables and accruals		822,612	1,203,212	2,341,164
Bank overdraft		2,067,556	-	829,337
		<u>2,890,168</u>	<u>1,203,212</u>	<u>3,170,501</u>
Non-current liabilities				
Deferred taxation		2,903,504	2,172,791	2,667,339
Term loans		22,000,000	17,350,000	20,240,000
		<u>24,903,504</u>	<u>19,522,791</u>	<u>22,907,339</u>
Total equity and liabilities		<u>49,584,635</u>	<u>42,144,476</u>	<u>47,991,691</u>
Represented by:				
Current assets				
Cash and bank balances		-	49,012	-
Provision for taxation		711,920	14,847	580,208
Receivables and prepayments		531,999	425,808	664,506
		<u>1,243,919</u>	<u>489,667</u>	<u>1,244,714</u>
Non-current assets				
Fixed assets	2	46,732,649	40,496,773	45,436,683
Investments		1,193,438	1,108,848	1,193,438
Interest rate hedge derivatives		414,629	49,188	116,856
		<u>48,340,716</u>	<u>41,654,809</u>	<u>46,746,977</u>
Total assets		<u>49,584,635</u>	<u>42,144,476</u>	<u>47,991,691</u>

The accompanying notes form an integral part of these financial statements

Summary of cash flows for the six months ended 31 December 2006

	Unaudited 6 months to 31 December 2006	Unaudited 6 months to 31 December 2005	Audited Year to 30 June 2006
Cash flows from operating activities			
Cash was provided from:			
Receipts from customers	3,567,734	3,504,813	6,537,104
Interest received	751	575	882
Cash was applied to:			
Payments to suppliers and employees	1,448,096	1,428,136	2,654,296
Interest paid	862,513	436,442	1,140,506
Income tax paid	-	330,000	485,763
Net cash flows from operating activities	1,257,876	1,310,810	2,257,421
Cash flows from investing activities			
Cash was provided from:			
Sale of assets	2,010		-
Sale of shares	-		26,823
Cash was applied to:			
Purchase of fixed assets	3,923,105	10,893,380	15,568,163
Net cash flows from investing activities	(3,921,095)	(10,893,380)	(15,541,340)
Cash flows from financing activities			
Cash was applied from:			
Loans advanced	1,760,000	10,350,000	13,240,000
Cash was applied to:			
Dividend paid	335,000	698,000	765,000
Net cash flows from financing activities	1,425,000	9,652,000	12,475,000
Net increase/(decrease) in cash held	(1,238,219)	69,430	(808,919)
Plus opening cash brought forward	(829,337)	(20,418)	(20,418)
Closing cash held 31 December 2006	(2,067,556)	49,012	(829,337)

The accompanying notes form an integral part of these financial statements

Abridged notes to the financial statements for the six months ended 31 December 2006

1. Accounting Policies for Dunedin International Airport Limited

A. 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.

B. Significant Accounting Policies

Basis of Accounting

The financial statements have been prepared in accordance with *NZ-GAAP*. 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 in accordance with *New Zealand Equivalents to International Financial Reporting Standards (NZ-IFRS)* and *International Financial Reporting Standards (IFRS)* for the first time. The disclosures required by *NZ-IFRS 1* concerning the transition from *NZ-GAAP* to *NZ-IFRSs* will be included in the Notes to the Financial Accounts.

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 and in preparing an opening *NZ-IFRS* balance sheet at 1 July 2005 for the purposes of the transition to *NZ-IFRS*.

Abridged notes to the financial statements
for the six months ended 31 December 2006

2. Fixed Assets

	Cost	Accumulated depreciation	Book value 31/12/2006	Book value 31/12/2005	Book value 30/06/2006
At Valuation:					
Land & improvements	11,018,532	437,717	10,580,815	10,715,284	10,647,585
Runway, apron, taxiway	9,633,530	2,053,129	7,580,401	7,797,723	7,751,936
Buildings	14,717,629	1,063,215	13,654,414	1,992,094	13,815,361
Rental housing	940,430	64,292	876,138	894,947	885,543
Capital work in progress	-	-	-	18,575,008	979,620
At Cost:					
Furniture & equipment	14,708,108	1,236,899	13,471,209	62,654	10,922,508
Vehicles	632,990	358,879	274,111	135,724	122,246
Plant & equipment	754,322	458,361	295,961	323,339	311,884
Total	52,405,541	5,672,492	46,733,049	40,496,773	45,436,683

3. Reconciliation of Net Surplus after Taxation to Cash Flows from Operating Revenue

	Unaudited 6 months to 31 December 2006	Unaudited 6 months to 31 December 2005	Audited Year to 30 June 2006
Operating surplus after taxation	12,601	405,172	922,213
Add back:			
Depreciation	1,057,001	824,011	1,536,953
Less:			
Increase in value of investments	-	-	(111,413)
	<u>1,069,602</u>	<u>1,229,183</u>	<u>2,347,753</u>
(Increase)/Decrease in accounts receivable	132,507	264,464	25,766
(Increase)/Decrease in deferred taxation	137,903	(64,693)	407,524
Increase/(Decrease) in accounts payable	(1,518,552)	(1,276,318)	(138,366)
Less items classified in investing activities	1,568,128	1,223,919	245,850
Increase/(Decrease) in provision for taxation	(131,712)	(65,745)	(631,106)
Net cash flows from operating activities	<u>1,257,876</u>	<u>1,310,810</u>	<u>2,257,421</u>

