

↑  Annual Report
2008




Dunedin
International
Airport
LIMITED

Summarised Annual Report 2008



The board of directors, from left: S McLauchlan, K Grant, R Walls and G Thomas

Directors

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

Chief Executive

F J McCall, AFNZIM

Business Manager

P Ford, BCom, CA

Auditors

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

Registered Office

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Postal Private Bag 1922, Dunedin 9054
Phone (03) 486-2879 ext 0
Fax (03) 486-2813
E-mail admin@dnairport.co.nz
Website www.dnairport.co.nz

Bankers

Westpac
101 George Street, Dunedin

Solicitors

Galloway Cook Allan
276 Princes Street, Dunedin

Chairman and Chief Executive's Report

Total passenger numbers at 708,506, compare to 701,975 last year, an increase of 0.9%.

Domestic passenger numbers at 638,219, compare to 622,229 last year, an increase of 2.6%.

International passenger numbers at 70,287 compare to 79,746, a decrease of 11.9%.

Total revenue is \$7,653,680, an increase of 9% on last year and 17.5% above budget.

Non-aeronautical income, at 69.2% of total revenue, compares to last year's figure of 62.4%.

No final dividend has been declared for 2008, in line with budget.

Shareholders' funds at \$33,571,405 compares to \$22,276,762 last year, an increase of 50.7% due to the revaluation of the Company's assets on 1 July 2007 by \$14.5 million.

The after tax deficit of \$324,236 compares to a surplus of \$324,847 last year, a decrease of 200%. This reflects the impact of an increase in depreciation costs relating to the revaluation of the company's assets and increased maintenance expenditure on apron pavements.

THE YEAR IN REVIEW

Although the year has presented many challenges to the air transport industry globally, the company achieved record revenues and continues to focus on consolidating on the progress of recent years and preparing for the future.

The company has had another successful year with total revenue reaching a record high of \$7,653,680. This is \$1,137,277 above budget and is a continuation of the strong growth experienced through management initiatives and actions realised over this period.

The decrease in Freedom Air flights over the period adversely impacted on both aeronautical and non-aeronautical revenues. The new Air New Zealand trans-Tasman flights, which replaced those operated by Freedom at the end of March, resulted in an overall increase in flights, with three return flights per week to Sydney and four return flights per week to Brisbane. The flights to Melbourne will again operate during the 2008-09 summer.

The company regards the introduction of full Air New Zealand services on the trans-Tasman and the addition of Dunedin to its international schedules as a positive step for the future. We will actively work with Air New Zealand and Tourism Dunedin to increase passenger numbers on the Sydney flights so that the ultimate objective of 'Project Gateway' – a daily return service – is achieved as soon as possible. It is encouraging that Air New Zealand has made a significant investment in leasing space and equipping flight-kitchen facilities at the airport.

Aeronautical revenues remained stable during the year. Non-aeronautical revenues continue to grow and it is important that the company continues to focus on these to mitigate constraint

risks on aeronautical revenue.

The after-tax deficit of \$324,236 was not unexpected due to higher interest and depreciation expense associated with the terminal redevelopment, but was an improvement on budget.

The year has seen international passengers decline by 11.9% from 79,746 last year to 70,287 this year. This decline is directly linked to the decrease in frequency and capacity provided.

Domestic passenger numbers have grown 2.6% from 622,229 last year to 638,219 this year.

During the year, Air New Zealand altered their flight schedule, adding capacity and increasing direct flights to and from Wellington and Auckland with a slight reduction in those to and from Christchurch. A small increase in revenue from landing charges reflects these changes and the heavier aircraft used on Auckland and Wellington routes.

Pacific Blue's introduction, from 1 July 2008, of a daily domestic flight to and from Christchurch (with connections to Auckland and Wellington) will re-introduce competition within the market. This is something that Dunedin has lacked since the demise of Ansett/Qantas New Zealand and, more recently, Origin Pacific.

The major risk for the company of decreasing passenger numbers will be driven by external factors, including the general economic situation in New Zealand, job losses from any major businesses moving out of the city or closing down, higher interest rates and lower discretionary income. All are major concerns.

The commitment of the company, with its partners, the Dunedin City Council, the Otago Chamber of Commerce and Tourism Dunedin, to 'Project Gateway' remains a key driver for growth in international passenger numbers. This project has achieved the major 'step change' in terms of numbers of direct flights and passengers to and from Australia. However, with the decline in flights and passenger numbers it is important that the company continues to work on growth in this area to ensure long term sustainability of funding. The project itself needs an element of re-focussing to take advantage of the short-term visitor marketing campaign being undertaken by Tourism NZ in Australia.

The continued challenge for the company is to maintain growth rates in the future by potentially increasing the number of destinations that can be directly reached from Dunedin (e.g. South Pacific) and/or increasing the flight schedule to better suit the business traveller (e.g. Melbourne and Sydney). In a period of transition and uncertainty, both risks and opportunities are available for the company.

CORPORATE SOCIAL RESPONSIBILITY

Environmental

Our terminal heating and cooling system has now won two significant awards – an Energy Efficiency & Conservation Authority (ECCA) award and the Association of Consulting Engineers New Zealand (ACENZ) Gold Award for its design and environmentally responsible approach.

The heat is extracted from bore water that is pumped up from 60-metres underground before

being re-injected into the same underground aquifer. This is a sensible and low impact use of a natural resource and also offers considerable operating cost savings over conventional systems.

The recently installed \$600,000 membrane waste-water filtration plant has come in for praise from the Otago Regional Council and is generally exceeding the stringent operational standards set for it in the resource consent. As a result we are now discharging recreational standard water into the Taieri Main Drain, which flows down to the lakes Waipori and Waiholo.

Our cardboard recycling programme continues to collect much of the cardboard disposed of at the airport. About 22-tonnes of cardboard was sent for recycling over the two past years.

Water conservation is also an important part of DIAL's careful environmental approach. The use of automatic taps in the terminal bathrooms has brought about significant savings in water use.

We also played our part in World Environment Day on 6 June, selling native seedlings to passengers to go some way to offsetting their carbon footprint for their travel on that day. The proceeds went to the 300-hectare-plus Orokonui Ecosanctuary being developed near Dunedin.

Another important environmental step we have taken is to switch to power supplier Meridian Energy, a carbon neutral electricity supplier.

The company continues to work closely with the Rhododendron Trust which is undertaking extensive plantings at the airport. To date about 1000 rhododendrons have been planted.

COMMUNITY CONTRIBUTION

Visits from schools and clubs continue to be an important part of DIAL's community involvement. In a similar vein, one of the larger scale visits during the year involved the 'Special Rigs for Special Kids' Run on 26 September 2007 which saw dozens of big rigs and dozens more happy kids hosted by the airport.

We continue to be keen supporters of the Otago Art Society's Spring Awards and sponsors of the Southern Sinfonia.

Our relationship with the Otago Museum continues to strengthen with further development of their 'Windows on Otago's Natural History' display on the mezzanine floor of the terminal. An albatross in full wing now soars above the escalators in the terminal building and a second display has been installed in the arrivals section of the International Terminal.

During the year, community fundraising events such as Daffodil Day, ANZAC Day poppy sales, and a Surf Lifesaving awareness day have been hosted in the Terminal Building.

OPERATIONAL MATTERS

Pacific Blue

Pacific Blue began domestic services to Dunedin on 1 July 2008. Although the actual start date fell outside the period of this annual report, considerable work was undertaken in the lead-up including preparation of the check-in area, setting up boarding gates and completing an apron extension for ground handling equipment and passengers.

APRON REHABILITATION PROGRAMME

We have completed the first year of a five-year Apron Rehabilitation Programme. The initial focus has been on improving apron drainage and adding three concrete tug pads.

PAVEMENT MONITORING

Hand-in-hand with the apron programme we have continued to monitor the state of the airside pavements. This is particularly important given the increasing number of heavier aircraft using Dunedin International Airport.

The 190m runway extension, completed in the early 1990s, is now the oldest piece of pavement at the airport and will need overlaying within the next three years.

We are continuing to assess the need for runway extensions to cope with future market expansion, which will represent a significant capital expenditure for the airport sometime in the future.

DAIRY FARM

Despite dry conditions during summer and autumn, the dairy farm continued to perform well. Milk solids payouts have also remained buoyant, although there has had to be a write-down in the value of the shares held in Fonterra. Production across both farms was up from 177,337kg/milk solids to 182,359kg/milk solids, an increase of 2.8%.

CHANGEOVER FROM FREEDOM TO AIR NEW ZEALAND

After a long relationship with Dunedin International Airport, Freedom Air ceased operations on 31 March. All its services were replaced by parent company Air New Zealand's full service product on the Sydney and Brisbane routes, with seasonal services being continued to Melbourne.

AIRPORT ZONE

Formalisation of the new Airport Zone in the Dunedin District Plan is moving towards its conclusion. The zone provides for appropriate airport related activities to establish and operate at the airport, to a standard more consistent with the amenity and environmental standards established under the District Plan.

An appeal by Air New Zealand sent the matter to the Environment Court, but has since been settled by negotiation. At time of writing this report, we have been advised by the Dunedin City Council that the Airport Zone has been formally adopted and notified, and came into effect on 1 September.

RENTAL CAR FACILITIES

Our plan to relocate and consolidate the rental car servicing facilities on to one site to the south of the car park has been delayed awaiting commitment from rental car companies. This plan will provide them with better facilities immediately adjacent to the vehicle pick-up and drop-off parking area at the south end of the terminal.

This disappointing delay continues to hold up the coherent redevelopment of the main car park on which the present rental car servicing depots are sited. Their removal would not only provide another 100 urgently required car parks for travellers, but enable the main entranceway to the car park to be rationalised and brought to a standard matching the terminal redevelopment, replacing the existing hodgepodge which often causes confusion for drivers.

SECURITY

The main change to security in the past financial year was the introduction of non-passenger screening for all airside personnel on 31 March.

We are currently involved in an industry-wide security review as part of a Ministry of Transport Domestic Security Review, instigated following an incident on a Blenheim to Christchurch flight when a female passenger pulled a knife and tried to get into the aircraft cockpit. This review has potentially significant implications for the company in terms of terminal infrastructure.

THE BOARD

Long serving board member Lindsay Brown retired from his position on 31 December 2007.

Over a period of nine years, Lindsay made a significant contribution to the work of the board and to the company. He brought a wealth of experience to the table and made an immeasurable contribution to the company when it faced the adverse impact of the collapse of Qantas New Zealand (previously Ansett) and the more positive challenge of successfully financing and building a new terminal.

Mrs Kathy Grant, an associate in the legal practice of Galloway Cook Allan, was appointed to the board by the Crown to replace Mr Brown and took up her position on 1 January 2008. Mrs Grant chaired the Council of the Dunedin College of Education prior to its merger with the University of Otago in 2007 and is a member of the University of Otago Council and the Board of Sport Otago.

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

We remain confident of our approach to meeting the challenges that lie ahead in an ever turbulent aviation environment, in the interests of our airlines and airport users, and the city and region we serve.



Richard Walls
Chairman



John McCall
Chief Executive

Summary Financial Report

These are summary financial statements of Dunedin International Airport Limited for the year ended 30 June 2008. The specific disclosures included in this Summary Financial Report have been extracted from the full financial reports dated 22 August 2008. The full financial report dated 22 August 2008 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 2008. 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 www.dnairport.co.nz.

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 22 August 2008.

Income statement for the year ended 30 June

	2008	2007
	\$	\$
Operating revenue	7,653,680	7,020,480
Finance costs	1,841,594	1,784,071
Operating surplus before income tax	(328,459)	159,208
Income tax/(credit)	(10,899)	68,348
Less deferred tax adjustment to reflect change in tax rates	6,676	(233,987)
Operating surplus after income tax	(324,236)	324,847

Statement of changes in equity for the year ended 30 June

	2008 \$	2007 \$
Equity at the beginning of the year	22,276,765	21,913,851
Recognised revenues and expenses		
Cash flow hedges gain/(loss) taken to equity	(255,729)	358,908
Deferred tax adjustment to reflect change in tax rates	-	14,159
Net surplus/(deficit) for the year	(324,236)	324,847
Property revaluation (net)	11,874,605	-
Total recognised income and (expense) for the year	11,294,640	697,914
Less distribution to owners		
- Final dividend	-	335,000
Closing equity	33,571,405	22,276,765

Balance sheet as at 30 June

Shareholders' equity	33,571,405	22,276,765
Current liabilities	1,072,002	1,965,334
Non-current liabilities	27,343,424	24,887,604
Total equity and liabilities	61,986,831	49,129,703

Represented by:		
Current assets	1,205,581	1,135,833
Non-current assets	60,781,250	47,993,870
Total assets	61,986,831	49,129,703

For and on behalf of the directors.



R F Walls
Chairman
22 August 2008



S J McLauchlan
Director

Statement of cash flows
for the year ended 30 June

	2008	2007
	\$	\$
Net cash flows from operating activities	1,960,374	2,716,407
Net cash flows from investing activities	(1,085,897)	(4,317,004)
Net cash flows from financing activities	-	1,425,000
Net increase/(decrease) in cash held	874,477	(175,597)
Plus opening cash brought forward	(1,004,934)	(829,337)
Cash held 30 June	(130,457)	(1,004,934)

TO THE READERS OF
DUNEDIN INTERNATIONAL AIRPORT LIMITED
SUMMARY FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

We have audited the summary financial statements as set out on these pages.

Unqualified Opinion

In our opinion, the information reported in the summary financial statements complies with FRS 43: Summary Financial Reports and is consistent with the full financial statements from which it is derived and upon which we expressed an unqualified audit opinion in our report dated 22 August 2008.

Basis of Opinion

The audit was conducted in accordance with the Auditor-General's Auditing Standards, which include New Zealand Auditing Standards. In addition to the audit, Polson Higgs performed human resources consulting. Other than the audit and these assignments, we have no relationship with, or interest in, the Airport.

Responsibilities of the Board of Trustees and the Auditor

The board is responsible for preparing the summary financial statements and we are responsible for expressing an opinion on those statements.



Graham William Crombie
Polson Higgs.
On behalf of the Auditor-General,
Dunedin, New Zealand
22 August 2008



The inaugural Pacific Blue flight is welcomed by a shower of water from DIAL's fire units

