

SUMMARISED
ANNUAL REPORT
2007




Dunedin
International
Airport
LIMITED



Revenue increased by 6% Assets increased by 2.3% to
nearly \$50 million New \$26 million airport terminal officially
opened Dunedin International Airport won NZAA Airport of
the Year Award



Directors

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

Chief Executive

F J McCall, AFNZIM

Business Manager

P Ford, B Com, CA

Operations Manager

R Roberts, BEng (Hons)

Auditors

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

Registered Office

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Bankers

Westpac
101 George Street, Dunedin

Solicitors

Galloway Cook Allan
276 Princes Street, Dunedin

Chairman and Chief Executive's Report

Total passenger numbers at 701,975, compare to 703,903 last year, a decrease of 0.27%.

Domestic passenger numbers at 622,229, compare to 613,578 last year, an increase of 1.41%.

International passenger numbers at 79,746 compare to 90,325, a decrease of 11.71%

Total revenue is \$7,020,480, an increase of 6.0% on last year and 2.8% above budget.

The after tax profit of \$324,847 compares to

\$922,213 last year, a decrease of 64.8%. This reflects the impact of interest and depreciation costs relating to the terminal redevelopment.

Shareholders' funds at \$22,276,762 compare to \$21,913,851 last year, an increase of 1.5%.

Non-aeronautical income, at 62.4% of total revenue, compares to last year's figure of 59.8%.

No final dividend has been declared for 2007. A final dividend for 2006 of 3.8 cents per share was paid in November 2006.

The Year in Review

While the company has enjoyed solid revenue growth, the year has been one of consolidating on the progress of recent years and preparing for the future.

Terminal Redevelopment

Undoubtedly the highlight of the year, the official opening ceremony for our new \$26 million terminal took place on Wednesday the 11th of October 2006.

About 200 special guests and dignitaries from Dunedin, and further afield, gathered for the ceremony to watch company board Chairman Richard Walls do the honours.

The unveiling of a special plaque marked the end of a staged, 30 month building project that saw the new terminal building grow alongside the previous terminal that had served the community since the 1960s.

Although the terminal was effectively commissioned during our previous financial year, there was still behind-the-scenes work to be done in areas such as baggage make-up and screening. Only once that was finished were we ready to say the job was done and celebrate the achievement.

It was gratifying to see so many leaders and key figures from our local community join to celebrate with us at the opening, and it was equally gratifying when thousands of people visited the terminal on Sunday 15 October 2006 for our public open day.

Everybody enjoyed a fun family day with displays from aircraft and our rescue fire

vehicles, as well as live music, entertainment and even our own version of the 'Generation Game', making great use of the baggage claim belt.

Overall though the most pleasing aspect of the new terminal has been the general feedback from the travelling public and airport visitors alike, who clearly enjoy the new facilities and the way they enhance their travel experience.

They appreciate and comment on the greatly improved services and the new retail areas – Paper Plus, Try Otago, The CD Store, Bank of New Zealand, Duty Free Stores X-Zone and Spotless Services' food outlets Velutto, BLD and Espresso Plus. Air New Zealand's Koru Lounge is also widely praised. It is pleasing to see these excellent facilities busy and well utilised.

Companies and other organisations are discovering our other great asset, the superb conference facilities on the mezzanine floor. These can easily cater for up to 100 people for meetings and conferences, and feature magnificent views of the Taieri Plain and the Maungatua Mountains range.

Our rental car operators have also settled well into their new customer service booths at the south end of the terminal. Avis, Budget, Hertz, Thrifty and Europcar have been joined by more recent arrivals, Jackie's and Dunedin Rental Cars.

Other key airport operators such as Mainland Air and Flightline Aviation continue to develop their businesses. Especially pleasing is confirmation that Mainland Air is planning to introduce new scheduled weekday services to Queenstown adding to the many charter services it operates from the airport. Mainland's Flight Training School, which also operates from the airport, continues to grow and has begun taking international students for pilot training.

The continued and pleasing development of these companies in many ways mirrors our own expansion.

Airport of the Year Award

It is always pleasing to receive the recognition of one's peers. We were therefore delighted to be named the winners of the inaugural Airport of the Year Award at the New Zealand Airports' Association conference in Auckland late last year.

The Airport of the Year Award, which is to become an annual award, was judged by the association's executive board and the sponsor. It is sponsored by Interspace Airport Advertising, a global airport advertising company from the United States.

It was something of a double for Dunedin International Airport with Operations Manager Richard Roberts receiving the award for Airport Personality of the Year. It was deserved recognition for Richard who is a member of the New Zealand Airports' Association

executive and is involved with helping smaller airports with technical issues and organising training seminars at conferences.

Last year's conference was the first for the New Zealand Airports' Association, which was formed earlier in 2006 to allow airports to work more closely together and give the industry its own distinct voice. We are pleased to host this year's conference in Dunedin.

Domestic Services

Domestic passenger numbers showed modest growth during the year. Passenger loadings continue to be very good and provide evidence of the demand for flights in to and out of the city.

Over recent months, there has been considerable speculation of another airline entering into the New Zealand domestic aviation market.

We are confident in our long held view that more capacity and more competitive pricing would see much greater growth in domestic passenger numbers.

International Services

This year's 11.71% fall in international passenger numbers is a direct result of the reduction in services and capacity on the trans-Tasman routes to and from Dunedin, serviced by Freedom Air.

The continued strong demand for trans-Tasman services out of Dunedin is evidenced by the high loadings achieved in recent months on the Sydney and Brisbane routes, and the number of travellers from the region who have found it necessary – for one reason or another – to travel from other airports, in particular Christchurch.

At the time of writing, we are awaiting the results of a review by Air New Zealand of their trans-Tasman services, including those operated by Freedom Air. Working with Tourism Dunedin we have made a positive case to Air New Zealand for more services into and out of Dunedin as one of the main gateways to the regions Tourism New Zealand is actively marketing in Australia for short-stay holidays.

Freedom's move to reinstate a seasonal Dunedin to Melbourne service last year was a successful one. The service was well-supported out of Dunedin and will be reintroduced over the 2007/08 summer months.

As we were the only one of the airports serviced by Freedom to have this service reinstated, its success can clearly be attributed in part to the promotional work we did in partnership with The Otago Daily Times, Tourism Dunedin and Freedom. We look forward to continuing this worthwhile partnership on any further opportunities.

Trends and Changes – maintaining our place in the market

Airports today are economic engines for the communities they serve and Dunedin is no exception. The investment in our new terminal reflects the important part the airport plays in the local economy, as well as our confidence in the future of the city and region we serve.

It also reflects the increasing share of New Zealand's tourism market that Dunedin has achieved in recent years. The importance of the city investing in its tourism infrastructure and ensuring that its icon attractions are not only retained but enhanced cannot be stressed too often.

With other regions now investing heavily in promotion, it is also important for Dunedin to continue to invest in quality promotion and marketing to maintain its profile and competitiveness. The review of the city's Tourism Strategy presently being undertaken for the Dunedin City Council will clearly be an important pointer to this.

There are several pleasing new developments at the moment, such as the Chinese Gardens being built behind the Otago Settlers Museum and the new Butterfly House which is to be opened soon at the Otago Museum. Both will make attractive additions to Dunedin's many and varied tourist attractions.

The redevelopment of the grand former Chief Post Office as part of the Hilton Hotel chain, and other hotel expansion and renovation, further signifies the arrival of Dunedin as a tourist destination in its own right.

Business and university sectors are also important airline and airport customers. Accessing northern centres and the world from the relative isolation of Dunedin is a continuing challenge to those based here but whose business is far beyond local markets. The increased frequency of domestic services, in particular Air New Zealand's introduction of new direct flights to and from Wellington and Auckland at later times of the business day, have therefore been most welcome, as evidenced by the good loadings they are receiving. We look forward to further services being offered in the not too distant future.

We will continue to plan to accommodate the growth that we believe will occur in the region. That requires us – as with other airport companies – to take a long-term view and invest in fixed assets that will provide quality, efficient service to present and future users of Dunedin International Airport, including our airline customers. The challenge – as always – is to match that long term investment to the short term flexibility that airlines have in regard to routes and schedules and the mobility of their assets.



Operational and Statutory Matters:

Environmental Issues

From the beginning of the terminal redevelopment we looked to create a building with a reduced environmental footprint.

Our heating system uses bore water that is pumped up from underground before the heat is extracted and the water re-injected. Even in the depths of winter when there are frosts on the ground, the water 60 metres or so down is still around 10°C.

This innovative, energy-saving system has been entered in the 'Innovation' category of the Energy, Efficiency and Conservation annual awards.

We have also made great strides with our sewage disposal system. The new \$400,000 membrane filtration plant is operational and we are now discharging recreational standard water into the Main Drain, improving the quality of the water flowing down to lakes Waipori and Waihola.

A successful recycling programme has also been introduced by the company to collect the many tonnes of cardboard which is disposed of at the airport. This was not previously serviced by any recycling companies given the distance from the urban area. The setting up of the programme required a good deal of effort by everyone involved and it must be gratifying for them to see the results.

Rhododendrons for Dunedin Trust Incorporated

We can look forward to an extra splash of colour around the airport thanks to a partnership between ourselves and the Rhododendrons for Dunedin Trust.

Trust members Allen Birchall and Mick Field have come up with an exciting planting plan to enhance our existing rhododendron plantings and create an even greater visual impact for visitors.

The Trust will provide the initial plants while the airport company will prepare the ground and maintain the more than 1,000 plants once they are established.

What Lies Ahead

A number of changes are in the pipeline including a road resurfacing project for areas that were not resurfaced during the terminal redevelopment.

Work on New Zealand Post's new freight facility near Mainland Air will begin about the time this report goes to print and should be finished by the end of October.

We are still working with rental car companies on options for consolidating their car facilities into one site to the south of the car park, rather than being spread around the airport as they are now. This move 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 and importantly, free up another 100 spaces in the main car park for public use. There is no definite date for a start on this work as yet.

Airport Zone

A proposed Airport Zone, to be included in the Dunedin District Plan, was being heard by an independent commissioner appointed by the Dunedin City Council as this report went to print.

The proposed Airport Zone includes areas of land currently zoned Rural, Residential 6 and Industrial 1. It provides for appropriate airport related activities to establish and operate at the airport, to a standard more consistent with the amenity and environmental standards and overall integrity of the Dunedin District Plan.

We supported the proposal throughout the hearing process and anticipate the commissioner will make his recommendation to the Dunedin City Council towards the end of September.

The Apron

Work will begin this year on upgrading the apron, both in terms of pavement strength and drainage.

The present concrete apron dates back to the 1960s when it only had to cope with the likes of Fokker Friendship and Vickers Viscount aircraft, rather than the current Boeing 737s and Airbus A320s.

We already have a strong runway and taxiway – as Pavement Classification Number (PCN) testing in 2005 confirmed – and the upgrade of the apron will bring it into line with those parts of the airport infrastructure.

Key Security Changes with LAGS

New security regulations mean international passengers leaving New Zealand face restrictions on carrying LAGs – liquids, aerosols and gels – onto the aircraft with them.

The new security measures were introduced at all New Zealand's international airports at the end of March to meet US and Australian requirements put in place following a terrorist alert in the UK earlier in the year.

The introduction of the measures at Dunedin Airport went smoothly, with the company and New Zealand Aviation Security working together to ensure passengers were made aware of the restrictions before checking in and proceeding to Border Control.

Further security changes are expected in the not too distant future following the passing of the Aviation Security Bill through Parliament.

Dairy Farm

Despite a difficult year due to unusually dry conditions, the year has been a satisfactory one for our dairy farm operation. The company will enjoy greater returns in the year ahead thanks to anticipated increases in the dairy milk solids payout.

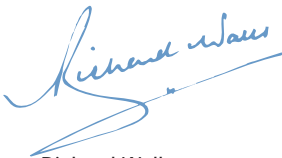
Looking Ahead

With the new terminal project fully commissioned the company now looks forward to increasing the return from this important asset – not just in simple dollar returns, but in terms of dividends to the region as visitor numbers increase.

We remain confident that the provision of facilities of such a high standard enables us to take advantage of positive trends and developments in both domestic and international travel and tourism. Our marketing focus is firmly on the opportunities we see opening up as the New Zealand and Australian Aviation markets increasingly merge into one.

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

Summary financial report

These are summary financial statements of Dunedin International Airport Limited for the year ended 30 June 2007. The specific disclosures included in this Summary Financial Report have been extracted from the full financial reports dated 12 September 2007.

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 cash-flows of the company.

An unqualified audit opinion has been received on the full financial report for the year ended 30 June 2007. 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 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 12 September 2007.

The icebergs off the coast of Otago in late-2006 were a bonanza for various air operators and Dunedin International Airport



Income statement for the year ended 30 June

	2007	2006
Note	\$	\$
Operating revenue	1 7,020,480	6,624,501
Operating surplus before income tax	159,208	1,184,394
Income tax	68,348	262,181
Deferred tax adjustment to reflect change in tax rates	(233,987)	-
Operating surplus after income tax	<u>324,847</u>	<u>922,213</u>

Statement of changes in equity for the year ended 30 June

Equity at the beginning of the year	2 21,913,851	21,678,345
Recognised revenues and expenses		
Cash flow hedges gain/(loss) taken to equity	358,908	78,293
Deferred tax adjustment to reflect change in tax rates	14,159	-
Net profit/(loss) for the year	324,847	922,213
Total recognised income and (expense) for the year	<u>697,914</u>	<u>1,000,506</u>
Less distribution to owners		
– Final dividend	335,000	698,000
– Interim dividend	-	67,000
Closing equity	<u>22,276,765</u>	<u>21,913,851</u>

The accompanying notes form an integral part of these financial statements

Balance sheet as at 30 June

	Note	2007 \$	2006 \$
Shareholders equity	2	22,276,765	21,913,851
Current liabilities		1,965,334	3,170,501
Non current liabilities		24,887,604	22,936,697
Total equity & liabilities		49,129,703	48,021,049
Represented by:			
Current assets		1,135,833	1,361,570
Non current assets		47,993,870	46,659,479
Total assets		49,129,703	48,021,049

For and on behalf of the directors.



R F Walls
Chairman
12 September 2007



L J Brown
Director

Summary of cash flows
for the year ended 30 June

	Note	2007 \$	2006 \$
Net cash flows from operating activities	3	2,716,407	2,257,421
Net cash flows from investing activities		(4,317,004)	(15,541,340)
Net cash flows from financing activities		1,425,000	12,475,000
Net increase/(decrease) in cash held		(175,597)	(808,919)
Plus opening cash brought forward		(829,337)	(20,418)
Cash held 30 June 2007		<u>(1,004,934)</u>	<u>(829,337)</u>

The accompanying notes form an integral part of these financial statements

Abridged notes to the financial statements for the year ended 30 June 2007

- 1 There are no changes to the income statement presented under *NZIFRS* and presented under *NZGAAP* apart from a reduction in the taxation charge for the year ended 30 June 2006 of \$140,869.
- 2 The company has adopted *IFRS* reporting with a transition date of 1 July 2005. The 2006 financial statements have been restated to comply with *IFRS*. The main adjustment is the application of the deemed cost option for land and buildings which resulted in the restatement of the valuation reserve to zero by reclassifying \$11.4 m from this reserve to retained earnings. The other key changes include the recognition in the balance sheet of the fair values of interest rate swaps and a change in the method of calculating deferred tax. At the date of transition to *NZIFRS* assets increased minimally due to the recognition of interest rate swaps at fair values. Liabilities increased by \$2.3m due to the change in accounting for deferred tax.
- 3 There are no differences between the cash flow statement presented under *NZIFRS* and the cashflow presented under *NZGAAP*.

**TO THE READERS OF
DUNEDIN INTERNATIONAL AIRPORT LIMITED
SUMMARY FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007**

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-39: *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 12 September 2007.

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
12 September 2007



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International
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