ANNUAL REPORT

2007

Dunedin International Airport

LIMITED

Dunedin International Airport Limited

Annual Report for the Year ended 30 June 2007

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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)A.F.Inst.D. (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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DUNEDIN

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Bankers

Westpac
101 George Street
DUNEDIN

Solicitors

Gallaway Cook Allan
276 Princes Street
DUNEDIN

Auditors

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

Airlines using Dunedin International Airport

For the year ended 30 June 2007

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 PA31-350 Chieftain
	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

Report of the Chairman and the Chief Executive

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.

- 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.

Terminal Redevelopment

Undoubtedly the highlight of the year, the official opening ceremony for our new $26M 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 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 15th 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 Plains and the Maungatua 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

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 redeveloped 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-degrees.
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 (Inc)

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 (Inc).
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 Viscount aircraft, rather than the current Boeing 737’s 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 - or 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 — **John McCall**
Chairman — **Chief Executive**

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 2007.

FINANCIAL PERFORMANCE

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

	ACTUAL $	BUDGET , $
Surplus before taxation	159,209	-255,017
Operating surplus after taxation	324,848	-159,311
Return on closing shareholders equity	1.5%	-0.7%
Closing shareholders' equity	22,276,765	23,259,190
Dividend paid	335,000	197,000

Revenue for the year was 2.8% above budget while expenses were 3.1% below budget. Although the number of international flights were below budget, concession revenues from terminal tenants, property rentals, car parking and the dairy farm, were all above budget. All costs were kept within budget, except for the cost of additional rescue fire staff and equipment to meet regulatory compliance, and the cost of a joint advertising campaign with Tourism Dunedin,Freedom Air and The Otago Daily Times to promote the resumption of the Melbourne service. Depreciation and interest costs relating to the new terminal have increased by $1.2 million on last year but were $0.2 million below budget.

TOURISM

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

The Company is a financial member of the Tourism Industry Association and Dunedin Host. 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 work to fulfil the objectives of Project Gateway and to consider new initiatives that will increase the number of visits by Australian residents to Dunedin and the region.

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. The preparation of a 5 year plan for the upgrading of apron pavements is in progress.

OPPORTUNITIES

To continue to seek new opportunities which promotes the use of the airport and adds value to the business.

During the year the non-aeronautical part of the business has been grown and increased revenues achieved and management has continued 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 opening of the new terminal resulted in improved customer facilities which has facilitated improved responsiveness and delivery of services to customers.

PERFORMANCE

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

The Board of Dunedin International Airport Limited has met monthly (except for January) to review the operating strategies and financial performance of the Company. The Board has reviewed the Company's actual results against strategic plans and financial budgets. A business plan and a Statement of Intent were provided to shareholders.

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 and these have been provided to the shareholders.

To ensure that the reporting requirements of shareholders are met.

In addition to the half year and annual reports the Company has produced quarterly reports, a Statement of Intent and a Business Plan for shareholders.

TRAINING

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

During the year both internal and external staff training programs have been undertaken. Management training, customer service, First Aid and hot fire training are examples of training courses attended by staff.

SOCIAL AND ENVIRONMENTAL

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

During the year, in accordance with Consent requirements ,the company has continued to monitor and report its compliance performance to the Otago Regional Council.

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

The staff Health and Safety committee has met during the year to review health and safety objectives and make recommendations to management. Monthly staff meetings have been held to identify matters of health and safety that needed to be brought to management's attention.

Trend Statement

For the year ended 30 June

	2007 [1]	2006 [1]	2005	2004	2003
Revenue					
Aeronautical	**2,547,439**	2,551,526	2,474,990	2,349,822	2,169,365
Percentage	**36.3%**	38.5%	39.7%	39.2%	41.3%
Non-aeronautical	**4,382,205**	3,960,680	3,646,315	3,515,431	2,959,581
Percentage	**62.4%**	**59.8%**	**58.4%**	**58.7%**	**56.4%**
Interest Income	**38,286**	**882**	**25,012**	**71,029**	**20,049**
Gain on Investments	**52,550**	**111,413**	**95,718**	**54,813**	**96,500**
Total Revenue	**7,020,480**	6,624,501	6,242,035	5,991,095	5,245,495
Percentage Increase	**6.0%**	6.1%	4.2%	14.2%	0.8%
Surplus Before Tax	**159,208**	1,184,394	2,362,709	2,610,784	2,096,500
Percentage Increase	**-86.6%**	-49.4%	-9.5%	24.5%	-13.1%
Net Tax Paid Surplus	**324,847**	922,213	1,423,991	1,684,500	1,258,244
Percentage Increase	**-64.8%**	-35.2%	-15.5%	33.9%	-21.9%
Shareholders' Equity					
Shareholders' Equity	**22,276,765**	21,913,851	23,967,038	23,529,047	22,555,547
Return on Shareholders' Equity	**1.5%**	4.2%	5.9%	7.2%	5.6%
Dividends Paid [2]	335,000	765,000	986,000	711,000	683,000
Dividend Rate Cents per Share	**3.8**	8.7	11.2	8.1	7.8
Capital Expenditure	4,541,104	15,322,313	11,075,917	1,149,081	99,868
Net Operating Cashflow	2,716,407	2,257,421	2,600,848	2,685,682	1,785,119
Net asset backing per share	**$2.53**	$2.49	$2.72	$2.67	$2.56
Proprietorship Ratio	45.3%	45.7%	71.5%	97.5%	97.9%

1 . The Company has adopted IFRS reporting with a transition date of 1July 2006. 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

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

Income Statement

For the year ended 30 June

	Notes	2007	2006
Operating revenue		6,929,644	6,503,427
Interest received		38,286	882
Bad Debts Recovered		-	8,779
Gain on investment		52,550	111,413
Total revenue		**7,020,480**	6,624,501
Audit Fees	4	13,261	12,150
Directors Fees		60,000	60,000
Interest Paid – Term		1,784,071	1,173,374
Depreciation		2,132,402	1,536,953
Loss on disposal of assets		7,744	-
Wages and Salaries		1,149,977	1,038,042
Other Operating Expenses		1,713,817	1,619,588
Total Expenses		**6,861,272**	5,440,107
Operating Surplus Before Income Tax		**159,208**	1,184,394
Income Tax	5	68,348	262,181
Deferred Tax adjustment to reflect change in tax rates	5	(233,987)	-
Operating Surplus After Income Tax		**324,847**	**922,213**
Earnings per share		**3.7 cents**	10.48 cents

Statement of Changes In Equity

	Notes	2007	2006
Equity at the beginning of the year		**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		**697,914**	1,000,506
Less Distribution to owners	6		
- Final Dividend		335,000	698,000
- Interim Dividend		-	67,000
Closing Equity		**22,276,765**	21,913,851

This statement is to be read in conjunction with the notes on pages 14-27

Balance Sheet

For the year ended 30 June

	Notes	2007	2006
Shareholders Equity			
Share capital	7	8,800,000	8,800,000
Hedge Reserve	8	451,357	78,290
Retained Earnings	9	13,025,408	13,035,561
		22,276,765	21,913,851
Current Liabilities			
Trade & Other Payables	10	760,215	2,201,387
Current liabilities	11	87,522	41,476
Provisions	12	112,663	98,301
Payables and Accruals		960,400	2,341,164
Bank Overdraft	13	1,004,934	829,337
		1,965,334	3,170,501
Non Current Liabilities			
Term Loans	14	22,000,000	20,240,000
Deferred Taxation	15	2,887,604	2,696,697
		24,887,604	22,936,697
Total Equity & Liabilities		**49,129,703**	48,021,049

Represented by:

	Notes	2007	2006
Current assets			
Provision for taxation		-	580,208
Receivables & Prepayments	16	483,299	664,506
Hedge Derivative	17	652,534	116,856
		1,135,833	1,361,570
Non Current Assets			
Property, Plant & Equipment	18	46,367,447	45,436,683
Investments	19	1,245,988	1,193,438
Deferred taxation	15	380,435	29,358
		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

This statement is to be read in conjunction with the notes on pages 14-27

Statement of Cashflows

For the year ended 30 June

	Notes	2007	2006
Cash flow from operating activities			
Cash was provided from:			
Receipts from customers		7,106,174	6,537,104
Interest received		38,594	882
Income tax refund		423,062	-
Cash was applied to:			
Payments to suppliers and employees		3,085,600	2,654,296
Interest paid		1,765,823	1,140,506
Income tax paid		-	485,763
Net cash flows from operating activities	22	**2,716,407**	2,257,421
Cash flows from investing activities			
Cash was provided from			
Sale of assets		1,610	26,823
Cash was applied to:			
Purchase of assets		4,318,614	15,568,163
Net cash flows from investing activities		**(4,317,004)**	(15,541,340)
Cash flows from financing activities			
Cash was provided from			
Loans advanced		1,760,000	13,240,000
Cash was applied to:			
Dividends paid		335,000	765,000
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	13	**(1,004,934)**	**(829,337)**

This statement is to be read in conjunction with the notes on pages 14-27

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Notes to Financial Statements

For the year ended 30 June 2007

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. 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.

3. 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 are included in the Notes to the Financial Accounts.

The financial statements have been prepared on the historical cost basis (including deemed cost) 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.

Revenue Recognition
Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and GST.

Revenue from services rendered is recognised when it is probable that the economic benefits associated with the transaction will flow to the entity. The stage of completion at balance date is assessed based on the value of services performed to date as a percentage of the total services to be performed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Leasing
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Company as Lessor
Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging a lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Company as Lessee
Assets held under finance leases are recognised as assets of the Company at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

Foreign Currencies
The financial statements are presented in the currency of the primary economic environment in which the Company operates (its functional currency). For the purpose of the financial statements the results and financial position of the Company are expressed in New Zealand dollars, which is the functional currency of the Company.

Transactions in currencies other than New Zealand dollars are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. The Company does not hold non-monetary assets and liabilities denominated in foreign currencies.

Borrowing Costs
All borrowing costs are recognised in profit or loss in the period in which they are incurred.

Employee Entitlements
Entitlements to salary and wages and annual leave are recognised when they accrue to employees. This includes the estimated liability for salaries and wages and annual leave as a result of services rendered by employees up to balance date at appropriate rates of pay.

Payments made to a defined contribution retirement benefit scheme are dealt with as an expense when they fall due.

Taxation
The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Property, Plant and Equipment
Property, Plant and Equipment are those assets held by the Company for the purpose of carrying on its business activities on an ongoing basis.

All Property, Plant and Equipment are stated at historical or deemed cost less any subsequent accumulated depreciation and any accumulated impairment losses.

Self-constructed assets include the direct cost of construction to the extent that they relate to bringing the Property, Plant and Equipment to the location and condition for their intended service.

Depreciation is charged so as to write off the cost of assets, other than land and capital work in progress, on the straight-line basis. Rates used have been calculated to allocate the asset's cost less estimated residual value over their estimated remaining useful lives.

Depreciation of capital work in progress commences when the assets are ready for their intended use.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Depreciation rates and methods used are as follows:

	Rate	*Method*
Runway, apron and taxiway	3% - 6.66%	SL
Buildings	1% - 33.3%	SL
Machinery & plant	10% - 12.5%	DV
Motor Vehicles	20% - 25%	DV
Fixtures, fittings, office and computer equipment	20% - 40%	DV

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year the item is derocognised.

At transition date the carrying value of the land, runway, apron, taxiway, rental housing and buildings were transferred at deemed cost in accordance with NZ IFRS1. Amounts in the revaluation reserve were transferred to retained earnings on transition.

Impairment of Assets Excluding Goodwill
At each balance sheet date, the Company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Financial Instruments
Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Receivables
Receivables are stated at cost less any allowances for estimated irrecoverable amounts.

Loans and Other Receivables
Loans and other receivables are financial instruments that are measured at amortised cost using the effective interest method. This type of financial instrument includes cash and bank balances, and demand deposits.

Investments
Investments are recognised and derecognised on a trade date where a purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at cost, including directly attributable transaction costs.

Investments in Equity Securities
Investments in equity securities have been designated "as at fair value through the profit and loss". Gains or losses on these investments are recognized in the Income Statement.

Payables
Payables are stated at cost.

Term Loans
Term loans are initially recorded at fair value net of directly attributable transaction costs and are measured at subsequent reporting dates at amortised cost. Finance charges, premiums payable on settlement or redemption and direct costs are accounted for on an accrual basis to the Income Statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Equity Instruments
Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derivative Financial Instruments and Hedge Accounting
The Company's activities expose it primarily to the financial risks of changes in interest rates resulting in variation of cash flows on floating rate debt. The Company uses interest rate swaps to hedge these exposures.

The Company does not use derivative financial instruments for speculative purposes. However, derivatives that do not qualify for hedge accounting, under the specific NZ IFRS rules, are accounted for as trading instruments.

The use of financial derivatives of the Company is governed by the interest rate hedge accounting policy approved by the Board of directors. The policies provide written principles on the use of financial

derivatives.
Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition derivative financial instruments are remeasured to fair value.

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in the Income Statement. For a cash flow hedge amounts deferred in equity are recognised in the Income Statement in the same period in which the hedged item affects net profit or loss.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the Income Statement as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the Income Statement for the period.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value with unrealised gains or losses reported in the Income Statement.

Provisions
A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured at the directors' best estimate of the expenditures required to settle the obligation at the Balance Sheet date, and are discounted to present value when the effect is material

4. AUDIT FEES

	2007	2006
Audit Fees	11,061	10,150
Fees paid to auditors for other assurance related assignments	2,200	2,000
	13,261	12,150
Fees for human resource services	1,127	10,438
	14,388	22,588

5. TAXATION PROVISION

(a) Income Tax

	2007	2006
Operating surplus before income tax	159,208	1,184,394
Taxation @ 33%	52,539	390,850
Plus / (Less) the tax effect of differences		
Revenue not liable for taxation	(17,342)	(36,766)
Expenditure not deductible for taxation	13,343	(100,125)
Under / (over) tax provision in prior years	19,808	8,222
Tax effect of differences	15,809	(128,669)
Tax expense	**68,348**	262,181
Effective tax rate	43%	22%

	2007	2006
Represented by		
Current tax provision	-	(145,343)
Deferred tax provision	48,540	407,524
Under / (over) tax provision in prior years	19,808	-
Income tax	**68,348**	262,181

(b) Deferred tax adjustment to reflect change in tax rates (233,987) -

(c) The Company has tax losses to carry forward of $1,155,182. This has been recognised as a deferred tax asset of $346,555 (note 15)

(d) Imputation Credit Account

Balance available at beginning of the year	2,626,920	2,509,594
Taxation payments made / (refunds received)	(423,000)	494,116
Credits attached to dividends paid	(165,000)	(376,790)
Balance at end of the year	**2,038,920**	2,626,920

6. DIVIDENDS

Interim Dividend	Feb		-	67,000
Final Dividend	Nov	3.8c/share	335,000	698,000
			335,000	765,000

7. EQUITY – SHARE CAPITAL

Issued Capital

8,800,000 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. The above shares have no par value.

8. RESERVES

Hedging Reserve

Balance at beginning of year	78,290	2273
Net revaluations	535,675	113,464
Deferred tax arising on hedges	(176,767)	(37,447)
Effect of changes in tax rate	14,159	-
Balance at end of the year	**451,357**	78,290

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of the cash flow hedging instruments relating to interest payments that have not yet occurred.

		2007	2006

9. RETAINED EARNINGS

	2007	2006
Balance at beginning of year	13,035,561	12,878,348
Net profits for the year	324,847	922,213
Dividend distributions	(335,000)	(765,000)
Balance at the end of the year	**13,025,408**	13,035,561

10. TRADE & OTHER PAYABLES

	2007	2006
Trade payables	537,727	1,533,824
Accruals	222,491	667,563
	760,215	2,201,387

The amounts due to customers under construction contracts at 30 June 2007 was $390,679 (2006: $1,636,770).

11. OTHER LIABILITIES

	2007	2006
Current Liabilities		
GST payable	48,689	-
Other current liabilities	38,833	41,476
	87,522	41,476

12. PROVISIONS

	2007	2006
Annual Leave		
Balance at the beginning of the year	98,301	81,492
Amounts used	(68,324)	(62,391)
Amount accrued	82,686	79,200
Balance at the end of the year	**112,663**	98,301

Annual leave related to staff leave not yet taken and is expected to be used in the next 12-18 months.

13. CASH & BANK OVERDRAFT

	2007	2006
Cash floats	1,000	700
Westpac cheque account	64,066	39,963
Short term advance	(1,070,000)	(870,000)
	1,004,934	829,337

Cash and short-term advances comprise cash held by the group and short-term bank advances with a maturity of three months or less. The carrying amount of these assets approximates their fair value. Short term advances are drawn at call advance rates.

14. TERM BORROWINGS (Secured)

	2007	2006
Wholesale term loan	**22,000,000**	20,240,000

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. The bank has indicated that the loan facility will be renewed at 31 December 2007. The company uses interest rate swaps to manage its exposure to interest rate movements. These are detailed in note 17.

15. DEFERRED TAX

(a) 2007	Opening Balance	Charged to Equity	Charged to Income	Assets	Closing Balance Sheet Liabilities	Net
Property, plant and equipment	(2,658,135)	-	(28,292)	-	(2,686,427)	(2,686,427)
Employee benefits at 33c	29,358	-	4,522	33,880	-	33,880
Losses carried forward at 30c	-	-	346,555	346,555	-	346,555
Revaluations of interest rate swaps at 33c	(38,562)	(21,024)	-	-	(59,586)	(59,586)
Revaluations of interest rate swaps at 30c		(141,591)			(141,591)	(141,591)
Balance at 30 June 2007	**(2,667,339)**	**(162,615)**	**322,785**	**380,435**	**(2,887,604)**	**(2,507,169)**

(b) 2006	Opening Balance	Charged to Equity	Charged to Income	Assets	Closing Balance Sheet Liabilities	Net
Property, plant and equipment	(2,245,255)	-	(412,880)	-	(2,658,135)	(2,658,135)
Employee benefits	24,003	-	5,355	29,358	-	29,358
Losses carried forward	-	-	-	-	-	-
Revaluations of interest rate swaps	(1,119)	(37,443)	-	-	(38,562)	(38,562)
Balance at 30 June 2006	(2,222,371)	(37,443)	(407,525)	29,358	(2,696,697)	(2,667,339)

16. TRADE & OTHER RECEIVABLES

	2007	2006
Trade receivables	483,299	475,965
Prepayments	-	4,337
GST Refund	-	184,204
	483,299	664,506

The directors consider that the carrying amount of the trade receivables approximates their fair value.

17. DERIVATIVE FINANCIAL INSTRUMENTS

Interest Rate Risk

	2007	2006
Interest rate swaps	652,534	116,856
	652,534	116,856

The Company uses interest rate swaps to manage its exposure to interest rate movements on its multi-option facility borrowings by swapping a proportion of those borrowings from floating rates to fixed rates. The interest rate agreements are held with Westpac.

The companys treasury policy recommends that the levels of the fixed interest hedge should be limited to a series of ranges within set debt time periods.

0 to 1 year	Between 70% to 90% of expected debt
1 to 2 years	Between 50% to 70% of expected debt
2 to 3 years	Between 40% to 50% of expected debt

The notional principal outstanding with regard to the interest rate swap is

	Effective interest rate	2007	2006
Maturing less that 1 year	6.52%	5,000,000	-
Maturing between 1 and 5 years	6.86%	8,000,000	10,000,000
Maturing after 5 years	6.27%	5,000,000	5,000,000
		18,000,000	15,000,000

Liquidity Risk
Liquidity risk represents the ability of the company to meet its contractual obligations. The Company evaluates its liquidity requirements on an ongoing basis. In general, the Company generates sufficient cash flows from its operating activities to meet its obligations arising from its financial liabilities and has credit lines in place to cover potential shortfalls.

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 exposure to credit risk is the amount stated in the financial statements and is net of any recognised provision for losses on these financial instruments. No collateral is held on these amounts.

Concentrations of credit risk
81.6% of trade debtors are due from five customers. These receivables are considered to be fully recoverable.

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

Price Risk
The Company faces price risk with respect to landing charges. These charges were last reviewed in 2002 and are subject to review in 2007/08.

The carrying amount of assets and liabilities equates to their fair value.

18. PROPERTY, PLANT & EQUIPMENT

(a) 2007	Land	Runway, Apron, Taxiway	Buildings	Plant & Equipment	Office Equipment	Motor Vehicles	Total
Cost or Valuation							
Balance at beginning of period	11,018,532	9,505,025	15,658,059	13,254,695	152,873	462,989	50,052,173
Purchases	372,008	35,135	-	2,443,479	43,010	178,888	3,072,520
Sales	-	-	-	(23,624)	(67,222)	-	(90,846)
Balance at end of period	11,390,540	9,540,160	15,658,059	15,674,550	128,661	641,877	53,033,847
Accumulated Depreciation							
Balance at beginning of period	370,947	1,753,089	957,155	1,085,990	107,567	340,743	4,615,491
Depreciation	133,540	608,520	372,426	967,404	16,479	34,033	2,132,402
Sales	-		-	(16,456)	(65,037)	-	(81,493)
	504,487	2,361,609	1,329,581	2,036,938	59,009	374,776	6,666,400
Balance at end of period	10,886,053	7,178,551	14,328,478	13,637,612	69,652	267,101	46,367,447

(b) 2006	Land	Runway, Apron, Taxiway	Buildings	Plant & Equipment	Office Equipment	Motor Vehicles	Total
Cost or Valuation							
Balance at beginning of period	11,018,532	9,250,771	13,034,744	827,078	135,746	462,989	34,729,861
Purchases	-	254,254	2,623,315	12,427,617	17,127	-	15,322,313
Sales	-	-	-	-	-	-	-
Balance at end of period	11,018,532	9,505,025	15,658,059	13,254,695	152,873	462,989	50,052,174
Accumulated Depreciation							
Balance at beginning of period	235,548	1,153,010	782,518	500,237	93,437	313,788	3,078,538
Depreciation	135,399	600,079	174,637	585,753	14,130	26,955	1,536,953
Sales	-		-	-	-	-	-
	370,947	1,753,089	957,155	1,085,990	107,567	340,743	4,615,491
Balance at end of period	10,647,585	7,751,936	14,700,904	12,168,706	45,306	122,246	45,436,683

19. INVESTMENTS

	2007	2006
Non-current investments at fair value through the profit and loss.		
Shares at market value in farmer cooperative Companies involved with dairy farm companies	**1,245,988**	1,193,438

Of this sum $1,229,404 (2006, $1,187,167) 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.

20. CONTINGENT LIABILITIES

There were no contingent liabilities outstanding at 30 June 2007 (2006 nil)

21. CAPITAL COMMITMENTS

Capital expenditure not provided for in the accounts at 30 June 2007 was nil (2006 $2.4m).

22. RECONCILIATION OF NET SURPLUS FOR THE YEAR TO CASHFLOWS FROM OPERATING ACTIVITIES

	2007	2006
Net surplus (deficit) for the year	324,847	922,213
Items not involving cashflows		
Depreciation and loss on disposals	2,140,146	1,536,953
Increase in value of investments	(52,550)	(111,413)
Deferred taxation	(160,170)	444,968
Deferred tax expense direct to equity	(162,611)	(37,444)
Impact of changes in working capital items		
(Increase) / Decrease in trade and other receivables	181,208	25,766
Increase / (Decrease) in trade and other payables	(1,380,762)	(138,366)
Less items classified as investing	1,246,091	245,850
Increase/(Decrease) in provision for taxation	580,208	(631,106)
Net cash inflows from operating activities	2,716,407	2,257,421

1.

23. JUDGEMENTS AND ESTIMATES

The Company used the following judgements in preparing the financial statements:
The bank term loan facility will be renewed at 31 December 2007.
The tax losses carried forward as a deferred tax asset will be utilised in the future when the Company makes a taxable profit. This deferred tax asset at 30c per $ will be realised beyond 30 June 2008 as the Company is forecasting an operating deficit for the 2007/2008 financial year.

24. FINANCIAL REPORTING STANDARDS

(a) The following financial Reporting Standards were not used in the preparation of the financial statements:

NZ IFRS2	Share-Based Payments
NZ IFRS3	Business Combinations
NZ IFRS4	Insurance Contracts
NZ IFRS5	Non-Current Assets Held for Sale and Discontinued Operations
NZ IFRS6	Exploration for and Evaluation of Mineral Resources
NZ IAS2	Inventories
NZ IAS11	Construction Contracts
NZ IAS14	Segment Reporting
NZ IAS20	Accounting for Government Grants and Disclosure of Government Assistance
NZ IAS21	The Effects of Changes in Foreign Exchange Rates
NZ IAS26	Accounting and Reporting by Retirement Benefit Plans
NZ IAS27	Consolidated and Separate Financial Statements
NZ IAS28	Investments and Associates
NZ IAS29	Reporting in Hyperinflationary Economics
NZ IAS30	Disclosure in the Financial Statements of Banks and Similar Financial Institutions
NZ IAS31	Interests in Joint Ventures
NZ IAS38	Intangible Assets
NZ IAS40	Investment Property
NZ IAS41	Agriculture

(b) The following financial Reporting Standards have been issued but are not yet effective and have not been adopted in the preparation of the financial statements:

NZ IFRS7	Financial Instruments Disclosures
NZ IFRS8	Operating Segments

The impact of these standards when they are adopted will be in relation to disclosure of information only.

25. RELATED PARTY TRANSACTIONS

(a) The shareholders of the Company are The Crown and Dunedin City Holdings Limited, which is wholly owned by the Dunedin City Council. Each owns 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 arm's 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 are as follows:

	Annual Purchases		Owing at 30 June	
	2007	2006	2007	2006
Dunedin City Council	197,690	127,903	-	-

(b) Transactions with entities in which directors have an interest:

Dunedin City Council, an organisation of which Mr Walls is a Councillor, paid $197,690 for rates and services.

(c) Compensation of key management personnel:

The remuneration of directors and other members of key management during the year was:

	2007	2006
Short-term benefits	517,000	496,000

The remuneration of directors is agreed annually, after consultation with the shareholders, and approved at the Company's annual meeting.

The remuneration of the Chief Executive is determined by the Board and the remuneration of key management personnel is determined by the Chief Executive having regard to the performance of individuals and market trends.

26. EVENTS AFTER BALANCE SHEET DATE

There were no significant events after balance sheet date.

27. EXPLANATION OF TRANSITION TO NZ IFRS

(a) Reconciliation of Balance Sheet and Income Statement.

The adoption of these new and revised standards and interpretations has resulted in changes to the Company's accounting policies. The amounts reported for the current and prior periods have been affected in the following areas:

First time adoption of NZ IAS1
Deferred tax NZ IAS12
Financial instruments NZ IASD 32 and NZIAS39
Employee benefits NZ IAS19

The impact of these changes is described below:

Balance Sheet

	Notes	NZ GAAP 30 June 2005	IFRS Adjustments	NZ IFRS 1 July 2005	NZ GAAP 30 June 2006	IFRS Adjustments	NZ IFRS 30 June 2006
EQUITY							
Share Capital		8,800,000		8,800,000	8,800,000		8,800,000
Reserves							
Retained Earnings		3,786,240		3,786,240	3,802,584	140,869	3,943,453
Retained – opening balance sheet adjustments	(b) (c) (e)	-	9,092,105	9,092,105	-	9,092,105	9,092,105
Hedge Reserve	(c)	-	2,273	2,273	-	78,293	78,293
Revaluation Reserve	(b)	11,380,798	(11,380,798)	-	11,380,798	(11,380,798)	-
Shareholders' Equity		23,967,038	(2,286,420)	21,680,618	23,983,382	(2,069,530)	21,913,852
Represented by							
CURRENT ASSETS							
Cash and bank balances		-	-				
Receivables & prepayments							
Trade debtors		398,484		398,484	475,965		475,965
GST refund		286,583		286,583	184,204		184,204
Prepayments		5,205		5,205	4,337		4,337
Derivative financial instruments	(d)	-	3,392	3,392	-	116,856	116,856
Total Current Assets		690,272	3,392	693,664	664,506	116,856	781,362
Less							
CURRENT LIABILITIES							
Payables & Accruals		2,479,530		2,479,530	2,341,164		2,341,164
Provision for tax		50,898		50,898	(580,208)		(580,208)
Bank overdraft		20,418		20,418	829,337	-	829,337
Total Current Liabilities		2,550,846	-	2,550,846	2,590,293	-	2,590,293
WORKING CAPITAL (DEFICIT)		(1,860,574)	3,292	(1,857,182)	(1,925,787)	116,856	(1,808,931)
NON-CURRENT ASSETS							
Property, Plant & Equipment		31,651,323		31,651,323	45,436,683		45,436,683
Investments		1,108,848		1,108,848	1,193,438		1,193,438
Deferred Taxation	(e)	67,441	(2,289,812)	(2,222,371)	(480,952)	(2,186,386)	(2,667,338)
Total Non-Current Assets		32,827,612	(2,289,812)	30,537,800	46,149,169	(2,186,386)	43,962,783
Less							
NON-CURRENT LIABILITIES							
Term Loans		7,000,000	-	7,000,000	20,240,000		20,240,000
Total Non-Current Liabilities		7,000,000	-	7,000,000	20,240,000		20,240,000
TOTAL EQUITY & LIABILITIES		23,967,038	(2,286,420)	21,680,618	23,983,382	(2,069,530)	21,913,852

Income Statement

There are no changes to the Income statement apart from a reduction in the taxation charge for the year ended 30 June 2006 of $140,869.

Cash Flow Statement

There are no differences between the cash flow statement presented under NZIFRS and the cashflow presented under NZGAAP

(b) Asset Revaluation Reserves

On transition to NZ IFRS all assets were deemed to be at cost. If assets under new rules become "at cost" it was no longer appropriate to carry a revaluation reserve in respect of those assets. Thus all reserves became more in the nature of retained earning. The balance sheet shows a material increase in retained earnings and a material drop in revaluation reserves.

(c) Hedging Reserve

In order to qualify for hedge accounting treatment under NZ IAS 39 the interest rate swaps in respect of the Company's efforts to manage the risk from changes in NZ dollar interest rates must comply with strict designation and effectiveness requirements for each instrument held.

The hedge methodology employed currently satisfies the NZ IFRS requirements and with no financial impact on annual earnings. Changes in the fair value of interest rate swaps has been recognised directly to equity.

DIAL's policy is to hedge its exposure to movements in interest rates. Under previous NZ GAAP any gains or losses on derivative instruments that were designated as hedges of specific items or economic exposures were deferred and recognised on the same basis as the underlying hedged item. The fair value of derivative instruments was previously disclosed in the notes to the financial statements. Under NZ IFRS there is a requirement to recognise on Balance Sheet all derivative instruments at fair value. If the instrument does not meet the requirements for hedge accounting then the change in the fair value is recognised in the Income Statement. The impact of adopting NZ IFRS for financial instruments for DIAL as at 1 July 2005 is to increase equity by $2,273 net of tax and derivative financial instrument assets by $3,392. The adjustment to equity (hedge reserve) relate to an interest rate swap that was entered into for hedge purposes.

(d) Derivative Financial Instruments

The Company has executed interest rate swap agreements with Westpac to manage its exposure to changes in interest rates over time. Some of the agreements within the portfolio at any one time may have a positive value and others a negative value. The overall value for derivative financial instruments is positive and therefore appears in assets. Under previous NZGAAP these financial statements were not recognised in the Balance Sheet.

(e) Deferred Tax

Under previous NZ GAAP DIAL accounted for deferred tax on a comprehensive basis using the liability method. Under NZ IFRS deferred tax is recognised on all temporary difference between the accounting for the effect of timing differences between accounting and tax profits. An adjustment has been booked to reflect the deferred tax on those items that were not subject to deferred tax under previous NZ GAAP. This adjustment for DIAL primarily reflects the recognition of deferred tax liabilities on the historic (Pre NZ IFRS) revaluations on depreciable Property, Plant & Equipment.

(f) Property, Plant & Equipment

DIAL elected to measure land, runway, apron, taxiway, rental housing and buildings on transition to NZ IFRS at fair value based on a previous GAAP revaluation, where the revaluation at the date of the revaluation was broadly comparable to fair value. The effect of the election to adopt a previous GAAP revaluation as deemed cost has resulted in a reclassification of amounts in the asset revaluation reserve associated with these items to retained earnings.

(g) Investments

Upon the transition to NZ IFRS, investments in equity securities have been designated as at fair value through the profit and loss. As with previous NZGAP all subsequent fair value adjustments under NZ IFRS will be recognised.in the Income Statement for the period.

(h) Loans and Receivables

Trade and other receivables, payables and loans have all been designated as Loans and Receivables at the transition to NZ IFRS. These financial assets and financial liabilities are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest rate method.

Shareholder Information

INTERESTS REGISTER

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

RICHARD WALLS

Dunedin City Council	Elected Member
Forever Fashion Ltd (50% shareholder)	Director
Otago Museum Trust Board	Member
Otago Settlers Museum Board of Management	Member
The Aramoana Relief Trust Inc	Chairman
The Otago Cricket Trust Inc	Trustee
Wordstruck: Festival of New Zealand Writing	Trustee

LINDSAY BROWN

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

STUART MCLAUCHLAN

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

GEOFFREY THOMAS

Anderson Lloyd Caudwell Legal Services Ltd	Director
Anderson Lloyd Nominees Ltd	Director
Anderson Lloyd Trustee Company Ltd	Director
Anderson Lloyd Trustees No.1 Ltd	Director
Anderson Lloyd Trustee Co (No. 2) Ltd	Director
A.L Tenancy Holdings Ltd	Director
Calvert & Co. Trustees Ltd	Director
COC Properties Ltd	Director
Coronation Property Pool Ltd	Director
Crystal Resources Ltd	Director
Dunedin Casinos Ltd	Director
Dunedin Casinos Management Ltd	Director
Drivers Road Trust Company Ltd	Director
Fund Managers Holdings Ltd	Director
HBC Trustee Ltd	Director
H E Thomas Ltd	Director
M H Trustee Holdings Ltd	Director
Old Wellington Ltd	Director
Principals Advice & Support Ltd	Director
Queenstown Mall Ltd	Director
Rattray Properties Ltd	Director
Swing Thru Holdings Ltd	Director
Swing Thru International Ltd	Director
Taieri Industrial Rental Investments Ltd	Director
Technology Holdings Ltd	Director
The Street NZ Ltd	Director
Thorndean Trustee Co Ltd	Director
Upstart Incubator	Director

JOHN MCCALL

Taieri Gorge Railway Ltd	Director
Tourism Dunedin	Trustee

RICHARD ROBERTS

NZ Airports Association Inc	Director
Tainui School Board of Trustees	Member
West Taieri Rural Water Scheme Committee	Member

Directors' Interests in Contracts
Details of contracts involving directors' interests entered into during the year ended 30 June 2007 are provided in Note 25 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 Directors' 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 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 the 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	$13,500
Lindsay J Brown	BCom	Non-Executive Director	$13,500
Geoffrey R Thomas	LLB	Non-Executive Director	$13,500

Mr R F Walls retires by rotation in accordance with the constitutions of the Company and, being eligible, offers himself for re-election.

Directors' 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:

Remuneration Range	No. Employees
$110,000-$120,000	1
$120,000-$130,000	1
$210,000- $220,000	1

The directors are not aware of any other matters or circumstances 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:

RF Walls
Chairman
12 September 2007

LJ Brown
Director

PolsonHiggs
BUSINESS ADVISORS

DUNEDIN
P O Box 5346
Moray House
139 Moray Place
Dunedin, NZ

T 03 477 9923
F 03 477 9795
W www.ph.co.nz

CHRISTCHURCH
P O Box 4449
Clarendon Tower
Cnr Worcester St
& Oxford Tce
Christchurch, NZ

T 03 366 5282
F 03 366 4254
W www.ph.co.nz

Audit Report

To the Readers of Dunedin International Airport Limited's Financial Statements and Performance Information for the Year Ended 30 June 2007

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 2007.

Unqualified Opinion
In our opinion:

- The financial statements of the company on pages 8 to 27:
  - 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 2007; and
    - the results of its operations and cash flows for the year ended on that date.
- The performance information of the company on pages 8 to 9 gives a true and fair view of the achievements measured against the performance targets adopted for the year ended 30 June 2007.
- Based on our examination the company kept proper accounting records.

The audit was completed on 12 September 2007, 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 2007. 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 2007. 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

Matters Relating to the Electronic Presentation of the Audited Financial Statements and Performance Information

This audit report relates to the financial statements and performance information of Dunedin International Airport for the year ended 30 June 2007 included on Dunedin International Airport's web-site. Dunedin International Airport's Board of Directors is responsible for the maintenance and integrity of Dunedin International Airport's web site. We have not been engaged to report on the integrity of Dunedin International Airport's web site. We accept no responsibility for any changes that may have occurred to the financial statements and performance information since they were initially presented on the web site.

The audit report refers only to the financial statements and performance information named above. It does not provide an opinion on any other information which may have been hyperlinked to or from the financial statements and performance information. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and performance information and related audit report dated 12 September 2007 to confirm the information included in the audited financial statements and performance information presented on this web site.

Legislation in New Zealand governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

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