



REGULATORY REPORT

PERTH AIRPORT 2001/02

January 2003

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Reporting summary

This section provides a brief summary of the information provided in the regulatory reports for the Phase I Airports (Melbourne, Brisbane, and Perth) and Sydney Airport.

Quality of service

Quality of service results for the Phase I airports and Sydney Airport are generally satisfactory.

Brisbane Airport has again received high survey ratings, with results for 2001/02 suggesting that both airlines and passengers were satisfied with the availability and standard of facilities and services provided at the airport. Over the five year period of monitoring, airline surveys and Brisbane Airport's own passenger surveys have reported high levels of satisfaction with the availability and standard of the airport's facilities and services.

Surveys carried out by Melbourne Airport in 2001/02 also suggest that passengers had a high degree of satisfaction with the availability and standard of the services and facilities provided by the airport. These results are similar to the results received over the full period of monitoring. Additionally, over the five years of monitoring, airline survey ratings have generally been maintained, although there was a decline in airline perceptions in both 1999/00 and 2001/02 compared to previous years.

Passengers surveyed by Perth Airport indicate a high degree of satisfaction with the quality of services provided, results that have been maintained over the period of monitoring. However, airline survey ratings suggest that in 2001/02, airlines were noticeably less satisfied with the availability and standard of services and facilities than has been the case over the first four years of monitoring.

Overall, the results for 2001/02 at Sydney Airport suggest that both airlines and passengers were satisfied with the availability and standard of the airport's facilities. Over the period of monitoring, the overall ratings given by passengers surveyed by Sydney Airport have been consistently high, and some improvements in the ratings given by airlines have been noticed.

Airport operators have responded to airline comments concerning service quality and these have been incorporated within the regulatory reports.

Operating & financial performance

All the Phase I airports and Sydney Airport continued to have positive earnings before interest and tax (EBIT) in 2001/02 but, with the exception of Sydney Airport, made losses after the deduction of interest and tax and amortisation of lease premiums.

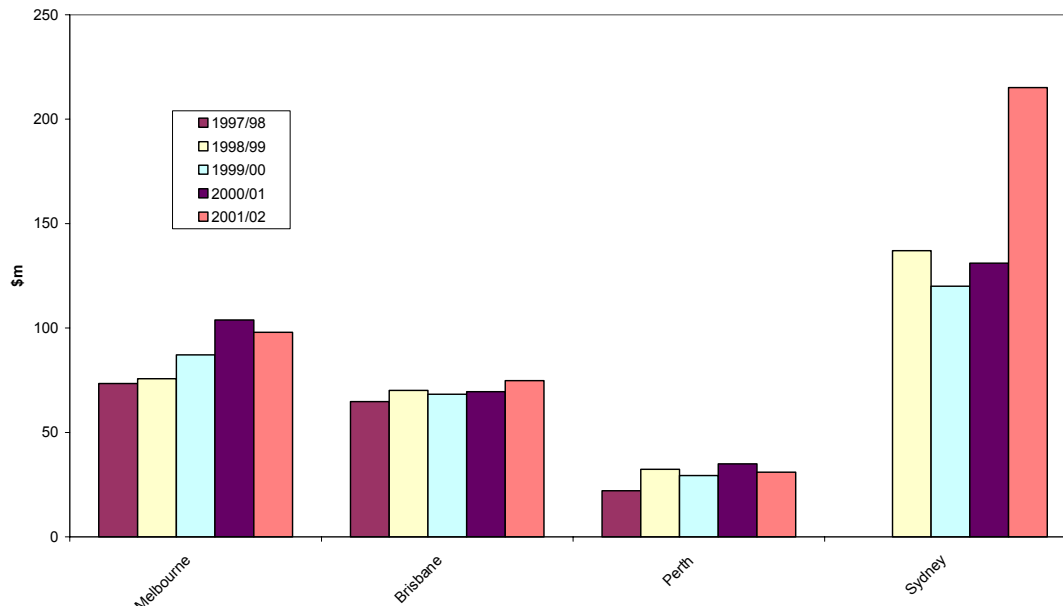
Table 1 summarises the operating financial results for the Phase I airports and for Sydney Airport in 2001/02.

Table A: Summary of selected financial results of the Phase I airports and Sydney Airport 2001/02.

Airport	EBIT \$million	Interest \$million	Amortisation \$million	Profit/(Loss) after interest and tax \$million
Brisbane	74.8	81.4	6.8	(7.1)
Melbourne	97.9	94.7	6.2	(1.8)
Perth	30.9	39.1	7.5	(8.2)
Sydney	215.1	74.8	0	87.1

In 2001/02 Perth Airport's and Melbourne Airport's EBIT declined by 11.5% and 5.7%, respectively. In 2001/02 Brisbane Airport's and Sydney Airport's EBIT increased by 7.6% and 64.2%, respectively.

Chart A below summarises the earnings before interest and tax of the Phase I airports and Sydney Airport over the entire reporting period 1997/98-2001/02.

Chart A: Earnings Before Interest and Tax 1997/98-2001/02

Price cap compliance

This is the final year in which the Commission will assess price cap compliance under the *Prices Surveillance Act 1983*. Following a review of airport regulation, in May 2002 the Federal Government accepted the Productivity Commission's recommendation to revoke prices surveillance and introduce formal prices monitoring. This new regulatory regime commenced on 1 July 2002.

The Commission conducted the final price cap reconciliations for Phase I airports as at the end of 2001/02. Sydney Airport is not subject to a price cap. Table 2 summarises the price cap reconciliations for Brisbane, Melbourne and Perth Airports for 2001/02 and sets out the net over/under recovery at the end of the price cap regime. The required reduction is the percentage reduction in prices required in 2001/02 to meet the required reduction for the year and prevent any addition or subtraction to the cumulative over/under recovery.

Table B: Price Cap Compliance - Phase I Airports

Airport	CPI-X 01/02 (%)	Past Over /(Under) Recovery (%)	Required reduction in 01/02 (%)	Actual reduction in 01/02 (%)	Over/(under) recovery in 01/02 (%)	Over/(under) recovery Five years to 01/02 (\$'000)
Brisbane Airport	-1.70%	3.31%	-5.01%	-4.56%	0.45%	2,444
Melbourne Airport	-1.20%	0.23%	-1.43%	-1.87%	-0.44%	(200)
Perth Airport	-2.70%	1.76%	-4.46%	-6.85%	-2.39%	503 ¹

2001/02

In 2001/02 Brisbane, Melbourne and Perth Airports reduced their charges on a revenue weighted basis by 4.6%, 1.9%, and 6.9%, respectively. In 2001/02 Brisbane Airport over recovered by 0.45% and was the only airport to over recover. In 2001/02 Melbourne Airport and Perth Airport under recovered by 0.4% and 2.4% respectively.

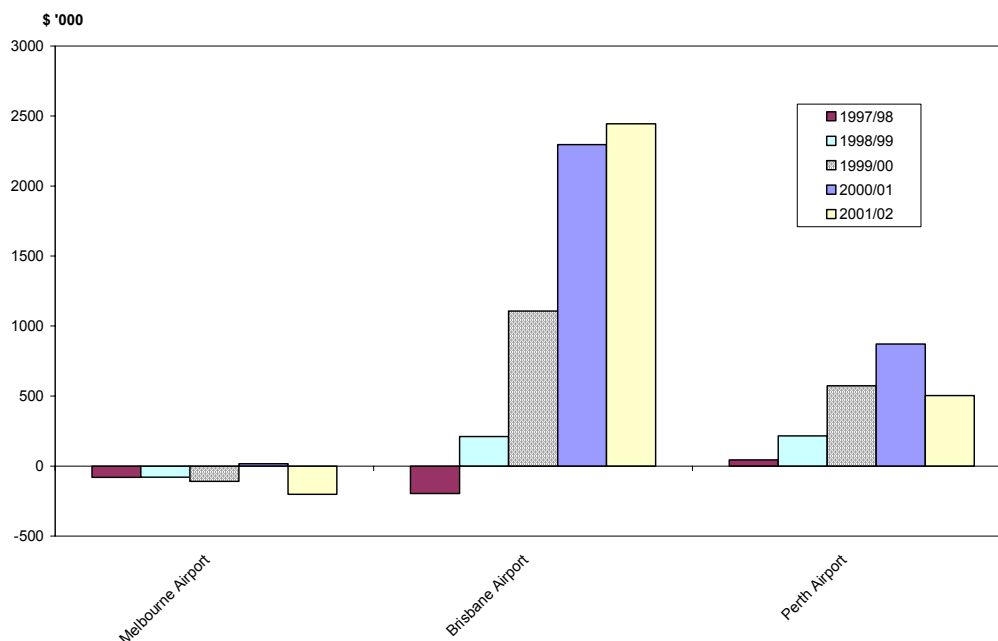
1997/98-2001/02

Brisbane Airport over recovered revenue in each of the past three financial years and had a significant over recovery in dollar terms as at the end of the five year price cap period in June 2002. Although Perth Airport complied with the CPI-X price cap in 2001/02 it had a net over recovery in revenue at the end of the regulatory period, because the under-recovery this period was not large enough to fully eliminate the previously accumulated over-recovery. Melbourne Airport was the only Phase I airport to have a net under recovery in revenue at the end of the regulatory period.

Chart B below summarises the cumulative over/under recovery of revenue for the period (1997/98-2001/02).

¹ Perth Airport's under-recovery in 2001/02 reduced the previously accumulated over-recovery.

**Chart B: Price cap compliance - cumulative revenue over/under recovery
1997/98-2001/02**



Aeronautical-related services

Aeronautical-related services are the subject of formal price monitoring pursuant to section 27A of the PS Act. The monitoring covers the costs, revenues and prices of these services. The rationale for monitoring is that airport operators may exert significant market power in relation to the monitored services at individual airports.

Aeronautical-related services include aircraft refuelling, aircraft maintenance sites and buildings, freight facilities, and car parking.

In exercising its role, the Commission may investigate particular pricing issues where users have raised concerns and it appears that the airport operator may have taken advantage of its market power. To date this has included the imposition of fuel throughput levies at Brisbane and Perth airports.

The Phase I airports and Sydney Airport provided data to the Commission for the year ending 30 June 2002. This includes revenues and costs for services related to:

- aircraft refuelling;
- aircraft maintenance sites and buildings;
- freight equipment storage sites;
- freight facility sites and buildings;
- ground support equipment sites;
- check-in counters and related facilities; and
- public and staff car parks.

Charts C and D show the total revenue and total costs of aeronautical-related services over the monitoring period. For all airports, revenue from these services exceeded

costs over the monitoring period. It is important to note, however, that the costs do not include amortisation of intangible assets or interest, which were particularly significant at Melbourne, Brisbane and Perth Airports.

Chart C: Total costs of aeronautical-related services 1997/98-2001/02

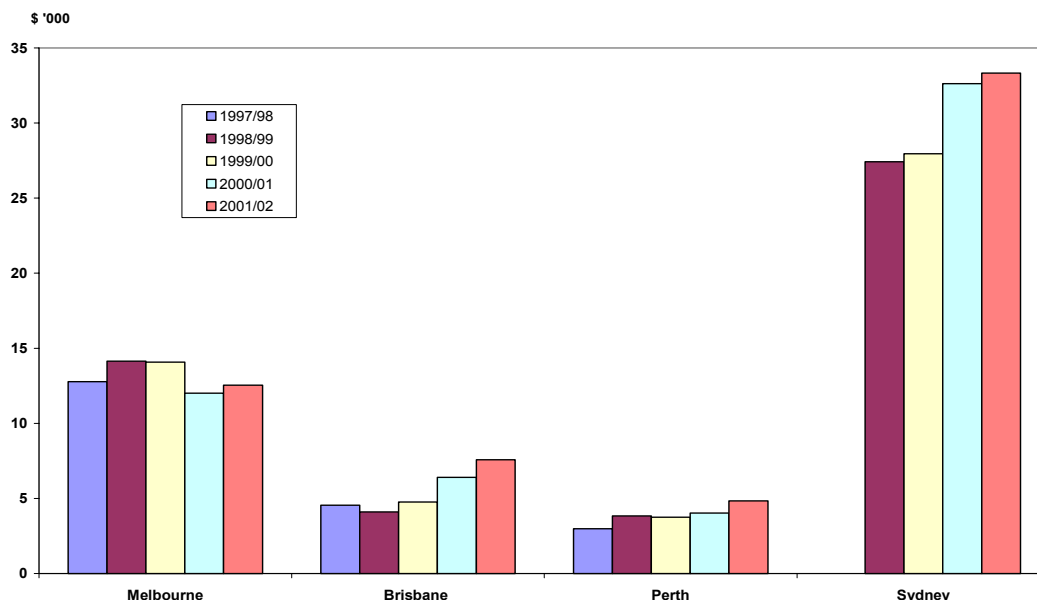
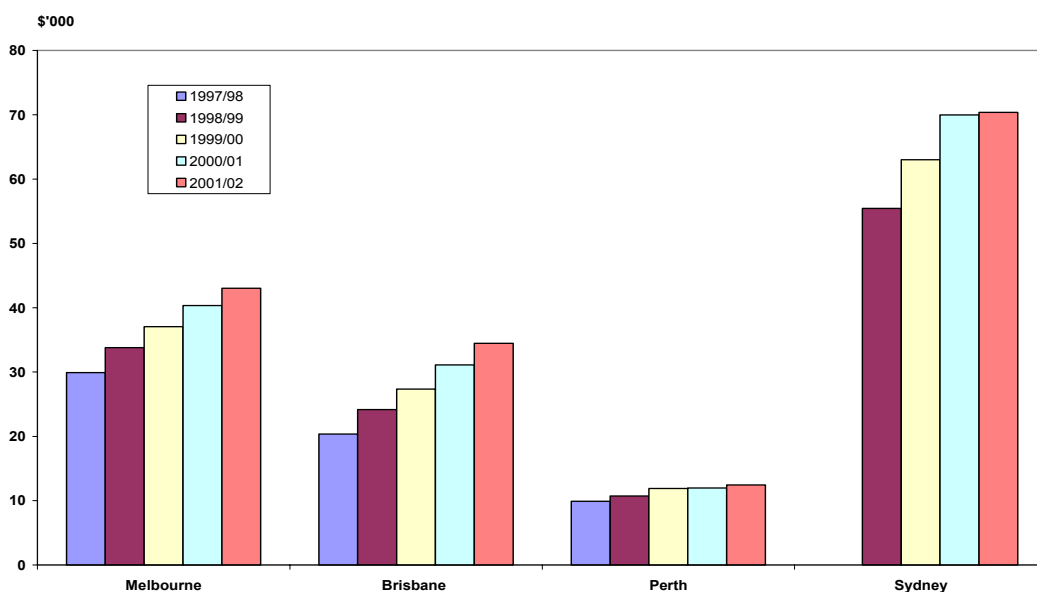


Chart D: Total revenue from aeronautical-related services 1997/98-2001/02



Monitoring of aero-related services also includes monitoring of car parking rates. Short-term parking prices have increased steadily for the period 1997/98-2001/02 at Brisbane Airport and Melbourne Airport. At Sydney Airport, car parking rates increased in 2000/01 and have remained reasonably constant since that time, while at Perth Airport short-term prices have been fairly steady, although longer term rates decreased slightly in 2001/02 after being increased in 1999/2000.

Introduction

Until 1 July 2002, Australian Competition and Consumer Commission (the Commission) had the primary responsibility for implementing and administering the economic regulatory measures applying to ‘core regulated’ airports. ‘Core regulated’ airports include the Phase I airports sold in May 1996, the Phase II airports sold in May/June 1997, and Sydney (Kingsford-Smith) Airport.

The regulatory regime for ‘core regulated’ airports has comprised measures under the *Trade Practices Act 1974* (TPA), the *Prices Surveillance Act 1983* (PS Act) and the *Airports Act 1996* (Airports Act). It included access arrangements, and a price cap on aeronautical services for the privatised Phase I and II airports. The framework also includes a range of measures designed to complement the price cap and increase transparency of certain aspects of the airport business.

In order to meet the transparency requirements under the regulatory framework, the Commission has reported annually on airport accounts, quality of service, prices monitoring, and price cap compliance for the ‘core regulated’ airports.

This is the final year in which the Commission will assess price cap compliance. Following a review of airport regulation, in May 2002 the Federal Government accepted the Productivity Commission’s recommendation to revoke prices surveillance and introduce formal prices monitoring. This new regulatory regime commenced on 1 July 2002.

From 2002/03 on, the Commission will be required to formally monitor prices, costs and profits at Adelaide, Brisbane, Canberra, Darwin, Melbourne, Perth and Sydney airports. Alice Springs, Coolangatta, Hobart, Launceston and Townsville airports, which were previously subject to price caps, will no longer be included in the formal prices oversight arrangements.

However, at the time of writing, the provisions of Parts 7 and 8 of the Airports Act continue to apply to all “core regulated” airports, including Alice Springs, Coolangatta, Hobart, Launceston and Townsville. Part 7 relates to the accounts and reports of airport-operator companies, and Part 8 to quality of service monitoring and reporting².

The report

This report relates to Perth International Airport (Perth Airport) and is divided into four sections. The first section addresses quality of service at Perth Airport and provides a summary of results. The second section provides information on Perth Airport’s financial accounts. The third section provides details on Perth Airport’s price cap compliance, and the fourth section addresses the formal monitoring requirements under section 27A of the PS Act.

² In November 2002, the Commonwealth Government initiated a review of the Airports Act, including Parts 7 and 8.

Perth International Airport

Perth International Airport is owned and operated by Westralia Airports Corporation Limited (WAC), which took over its operation from the Federal Airports Corporation (FAC) on 2 July 1997. A consortium consisting of Airport Group International, Hastings Fund Management and Infratil Australia Ltd paid \$639 million for a 50-year lease of the airport, with an option for a further 49-year lease at the end of that period.

This is the fifth regulatory report for Perth Airport. The Commission would like to acknowledge the cooperation received from WAC in providing data and responding to queries that assisted in the preparation of this report.

1. Quality of service monitoring

This section details quality of service monitoring at Perth Airport. It begins by providing an overview of the Commission's role in quality of service monitoring at Perth Airport. Following this is a summary of the 2001/02 quality of service results for Perth Airport and a review of results over the period of monitoring since 1997/98.

1.1 The Commission's role and approach to quality of service monitoring

Regulations

The Commission has been required to conduct quality of service monitoring pursuant to Part 8 of the Airports Act.³ Under the regulations to the Airports Act, airport operators are required to provide the Commission with information on a range of indicators. These indicators cover various aspects of an airport's service quality performance and are detailed in Appendix 1.

Generally, quality of service monitoring is aimed towards:

- providing transparency about airport performance;
- discouraging airport operators from providing unsatisfactory standards for services which are associated with significant market power; and
- assisting the Commission to assess an airport operator's conduct as part of the review of prices oversight arrangements.

The information requested by the Commission from airport operators is directed towards meeting these objectives.

The Commission's approach

In reporting on the quality of service indicators, the Commission focused on the standard and availability of facilities and services provided by, or which could be influenced by, the airport operator. These facilities and services included: airside facilities such as runways, taxiways and aprons; terminal facilities, such as international departure lounges and baggage claim; car parking; and taxi and bus pick-up and drop-off points. Domestic terminals owned and/or operated by airlines were not included as part of the quality monitoring report.

In constructing this quality monitoring report, the Commission sought information from a number of different sources, including:

- passengers of the airport, through passenger perception surveys conducted by the airport operator;

³ For a detailed description see ACCC, *Quality of Service Monitoring Post Leasing*, February 1997 available on the Commission's web site at www.accc.gov.au under Airports.

Airport operators

WAC was required to provide the Commission with information on the 'static indicators' for Perth Airport. These indicators included the number of passengers, the number of aerobridges and the size of aprons. Details of the 'static indicators' for Perth Airport are provided in Appendix 4.

Australian Customs Service and Airservices Australia

The Commission conducted a survey of ACS to assess certain quality aspects of Perth Airport. ACS was asked to rate the quality of immigration facilities, baggage processing facilities, and WAC's consultation procedures. Results from this survey are incorporated in section 1.2 below.

Issues

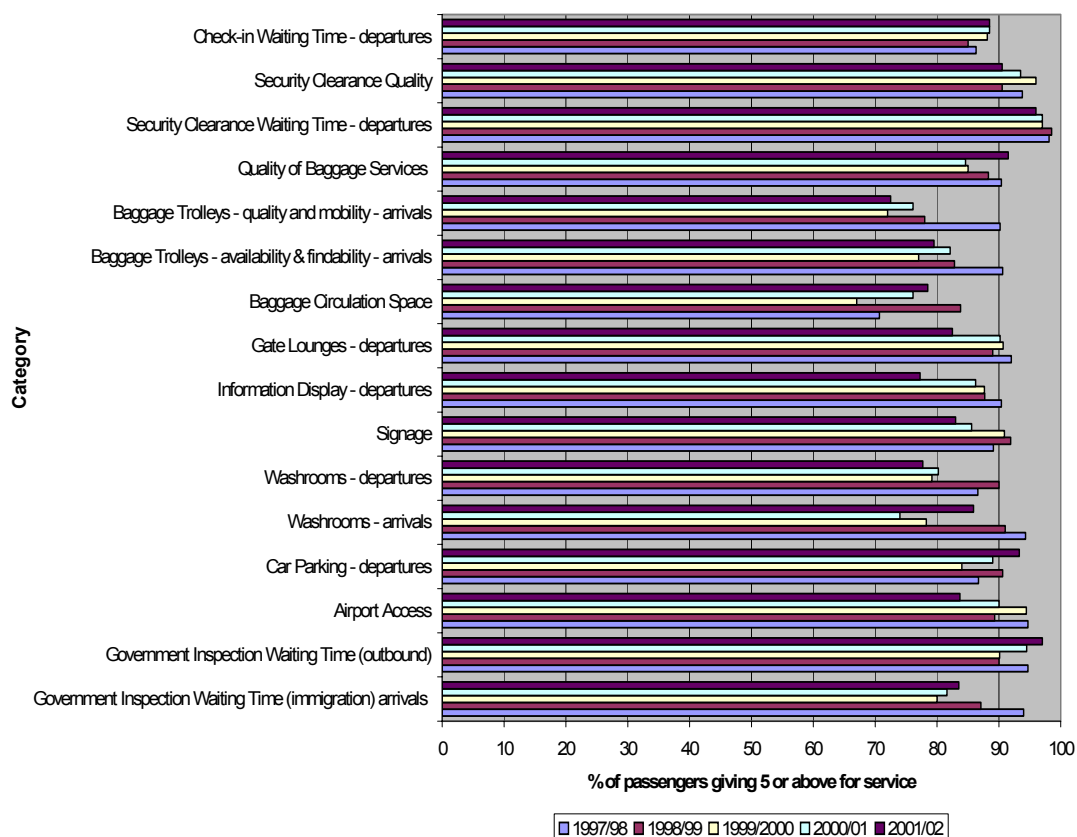
In assessing the quality of service at Perth Airport, it is important to note that there were a variety of factors outside the immediate control of WAC which may have influenced the quality of service results obtained. The first of these is the staffing of check-in services by airlines, and similarly, staffing of immigration services by Customs. These aspects may have affected the quality results obtained for related services. Secondly, airlines, Airservices Australia and other service providers might have contributed to quality outcomes at Perth Airport.

Another point to consider when viewing results is that it takes time to implement changes and to make improvements in quality monitoring areas. In general, airport operators may not have sufficient time to make improvements in areas where deficiencies have been identified in one year's report, before the next year's monitoring report is completed. For example, there may be a lag between an increase in passenger and flight numbers and an increase in the capacity of terminal infrastructure. Given that investment in terminal infrastructure is 'lumpy', there may be increased crowding in the lead-up to new investment which could reflect adversely in the results of some quality of service indicators. Also, improvements in quality may not be made where the costs do not justify the expected benefits.

1.2 Quality of service results 2001/02 and review 1997/98-2001/02

The assessment of quality of service results is made having regard to the passenger perception survey, the airline survey, the ACS survey, and the additional comments and data provided by WAC.

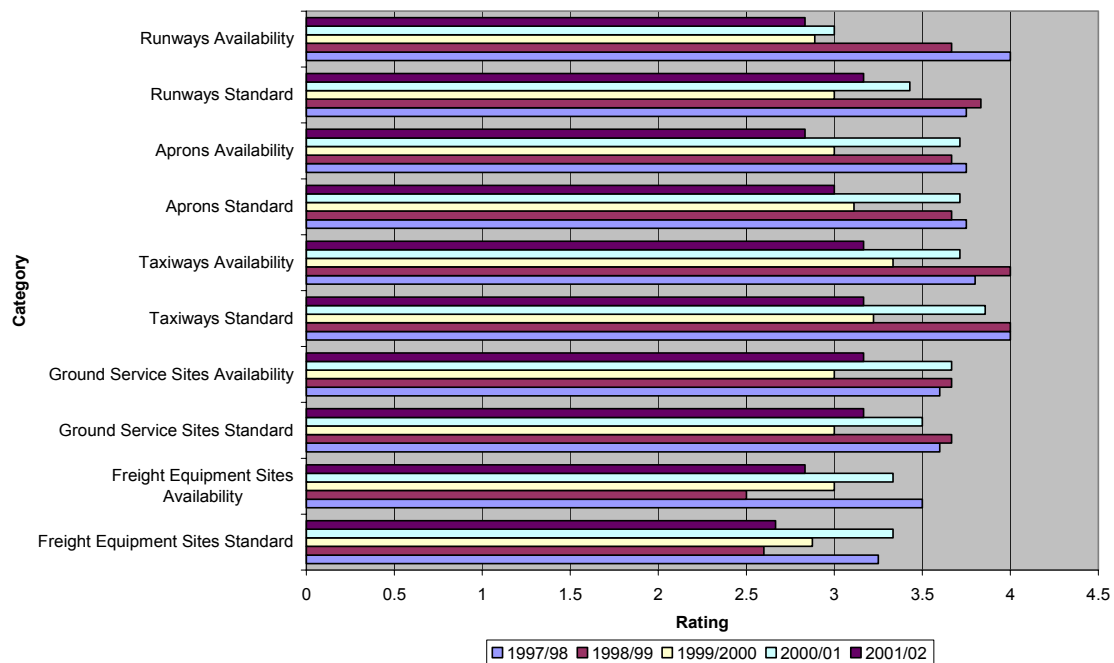
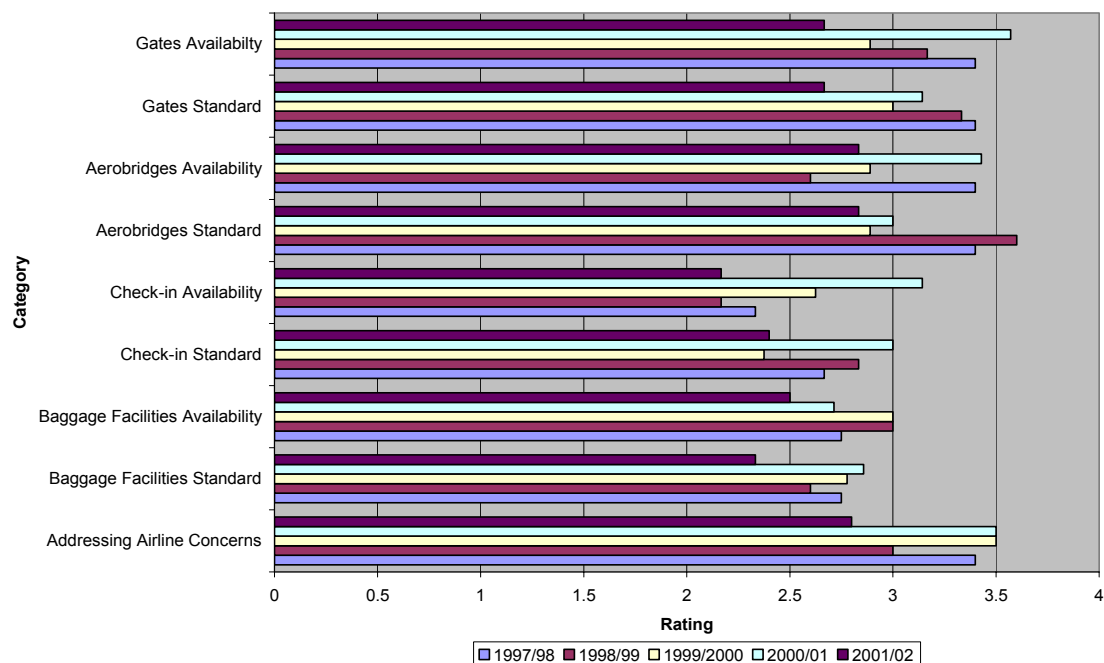
The Passenger Perception Survey results show that for 2001/02, 80% or more of passengers rated most services at 5 or above out of 7. Ratings from 5 to 7 have been interpreted in this report as indicating Good to Excellent. These ratings indicate that passengers have a high level of satisfaction with the quality of services and facilities at Perth Airport. Over the five years of monitoring, results have generally been maintained at a high level. Appendix 2 provides explanations of the indicators covered in the passenger surveys and Chart 1 below compares the results over the five years of monitoring.

Chart 1: Comparison of Passenger Surveys, 1997/98-2001/02

The airline survey results indicate that airlines were noticeably less satisfied with the availability and standard of facilities in 2001/02 compared to the previous year. This is in contrast to the first four years, where the results indicate that airlines were reasonably satisfied with the availability and standard of facilities (although in some cases results were poor). A summary of results is presented in Charts 2a and 2b. For the purpose of charting, the ratings have been converted to scores from 1 to 5, and the airlines' scores averaged. Thus the equivalence is:

Very poor = 1; Poor = 2; Satisfactory = 3; Good = 4; Excellent = 5.

More details of the results of the 2001/02 airline survey are given in Appendix 3.

Chart 2a: Results of Airline Surveys, Airside Facilities - 1997/98-2001/02**Chart 2b: Results of Airline Surveys, Terminal Facilities - 1997/98-2001/02**

Runways, aprons and taxiways

The quality of runways, aprons and taxiways at Perth Airport were assessed using the results obtained from the airline surveys.

2001/02

The availability of runways was generally rated from 'poor' to 'satisfactory' by airline survey respondents. Overall, the ratings were lower than for the previous year. One airline commented that having only one runway for international flights was insufficient whilst another airline commented that only one runway currently existed that suited their type of aircraft. WAC comments that it has been prepared to upgrade the 24-06 runway to suit unrestricted operations, but that it was unable to reach a funding agreement with the airlines under the previous necessary new investment principles that allowed price increases outside the price cap. Work is now planned to commence in 2003.

The standard of runways was rated as 'satisfactory' by all but one airline respondent, which rated the standard as 'good'. Again, this represents a decline on last year's results. A number of airlines complained that runway 24-06 is too short, not supported by ILS and turning nodes are too small. One airline also commented that runway 24-06 is in a very poor state of repairs.

WAC comments that it has not yet received any request to lengthen the 24-06 runway, but that the Master Plan, approved by the Minister for Transport and Regional Services will allow for an extension. WAC also comments however that provision of an ILS is the responsibility of Airservices Australia and not WAC. Notwithstanding this, WAC states that an ILS exists on one end of runway 24-06, and that the main runway, 21-03, has an ILS at both ends.

Perth Airport had seven international apron positions for aircraft parking at 30 June 2002, the same as at the end of the previous year. Both availability and standard of aprons received an overall rating in airline surveys of 'satisfactory', although two airlines gave 'poor' ratings with regards to apron availability. These results represent a notable decline in ratings when compared to last year's results.

Two airlines commented that there are insufficient aprons, whilst another complained that paving around the stand-off bay area (domestic) needs attention, with the apron becoming uneven in places. WAC responds that any congestion on the QANTAS domestic apron is the result of QANTAS increasing domestic and regional capacity following the demise of Ansett. WAC also states that, with the exception of minor works to accommodate the new A330 aircraft, it has not been approached to increase the size of the domestic aprons, and that the standoff area paving is receiving maintenance attention.

Taxiway availability and standard at Perth Airport were generally rated as 'satisfactory' by airline respondents, once again a noticeable decline on last year's results. No comments were received from the airlines concerning this indicator. WAC proposes to construct an additional taxiway to the international apron in 2003.

1997/98-2001/02

Over the five year period of monitoring, the overall airline survey ratings concerning runway availability have declined, with an average rating of 'good' in 1997/98 falling to 'poor' to 'satisfactory' in 2001/02. Over the period of monitoring, a number of airlines have commented that large aircraft have not been well catered for, particularly in relation to runway 24-06. WAC has stated that it intends to commence work on 24-06 in 2003.

The overall airline survey ratings for runway standard have also declined over the period of monitoring, although less severely. In both 1997/98 and 1998/99, airlines responded that the standard of runways was 'satisfactory' to 'good'. However, over the last three years, airlines have tended to rate the standard of runways as 'satisfactory'.

The availability and standard of aprons at Perth Airport has received declining ratings from airlines over the period of monitoring. After 'satisfactory' to 'good' ratings in the first two years of monitoring, apron availability and standard received lower overall ratings in 1999/2000. Ratings improved in 2000/01 but have fallen again in the last financial year. A number of airlines have commented that there are insufficient aprons.

Taxiways have been rated by airline respondents as 'satisfactory' to 'good' since 1997/98 although, as with runways and aprons, there has been a trend of declining ratings.

Overall, the ratings of the availability and standard of the runway, apron and taxiway infrastructure has declined since 1997/98.

Gates

The quality of gates at Perth Airport was assessed using information obtained from the airline surveys and information provided by WAC.

2001/02

Perth Airport had seven aircraft bays servicing international aircraft at 30 June 2002, the same as at the end of the previous year.

The availability of gates at Perth Airport was rated from 'poor' to 'satisfactory' by airline survey respondents. These ratings are lower than those awarded last year. A number of airlines complained that there are an insufficient number of gates and that delays occur as a result. WAC however disputes this claim and states that gates are available for on-time (ie within 15 minutes) scheduled operations. Furthermore, it states that it has not been approached by the industry to provide additional gates. However, some gates may be readily provided and have been included in the International Terminal Building (ITB) planning.

The standard of gates was similarly rated by airlines from 'poor' to 'satisfactory', with a number of airlines complaining about the standard of gates at Perth Airport. For example, one airline complained that passengers have to walk down 3 flights of stairs before they can access aerobridges. The airline suggested that this represents a safety hazard, and that it is very inconvenient for those in wheelchairs and those travelling with infants. Another airline complained that there are very few facilities at

the gate area, with an insufficient number of telephones. The airline also commented that a common holding area makes controlling boarding difficult. WAC notes that a proposal to refurbish the international terminal building was not agreed to by the airlines.

1997/98-2001/02

Over the five years of monitoring, Perth Airport has maintained seven international aircraft parking bays. The availability and standard of gates has generally been rated as 'satisfactory' or 'good', although the past year has seen a noticeable decline in these ratings. A common criticism has been that there are only five gates equipped with aerobridges to service seven parking bays.

Ground service equipment storage sites

The quality of ground service equipment storage sites at Perth Airport was assessed using airline surveys.

2001/02

Ground service equipment storage sites were rated from 'satisfactory' to 'good' by airline survey respondents for both availability and standard. These ratings are slightly lower than the previous year's. Only one comment was received from the airlines. In this case, the airline commented that bay huts on bays 50 and 56 are not lockable and that engineers cannot store equipment in huts if they are working in those areas. WAC states that the engineers' huts are a common-use facility and it would be inappropriate to provide a locking facility.

1997/98-2001/02

Airline survey ratings have been 'satisfactory' to 'good' with the only comments received relating to a lack of dedicated space and some common user facilities not being lockable.

Freight equipment storage sites

The quality of freight equipment storage sites at Perth Airport was assessed using airline surveys.

2001/02

The standard and availability of freight equipment storage sites were rated from 'poor' to 'good' by airline survey respondents which was slightly lower than last year's results.

Two airlines commented that there is a lack of undercover storage space for freight equipment. WAC states that it would be prepared to enter into commercial negotiations with the industry to provide undercover storage for freight equipment.

1997/98-2001/02

After availability was given an average rating by airlines of 'satisfactory' in 1997/98, this result fell to 'poor' in 1998/99. An overall improvement was noted in 1999/2000 and 2000/01 with the average rating being 'satisfactory'. However, 2001/02 has seen the average rating again fall to 'poor'. Similar results have been seen for the standard

of freight equipment storage sites. Most comments received over the monitoring period have concerned the facility being some distance from aircraft operational areas, and there being insufficient space for storage. This year two airlines complained about the lack of undercover space.

Aerobridges

The quality of aerobridges at Perth Airport was assessed using airline surveys and information provided by WAC.

2001/02

Perth Airport had five aerobridges for international aircraft at 30 June 2002, the same as at the end of the previous year. Over 99 per cent of all passengers embarking or disembarking used an aerobridge over the last year.

Airlines surveyed rated the availability of aerobridges at Perth Airport from 'poor' to 'good', which was slightly lower than for the previous year. A number of airlines complained that there are an insufficient number of aerobridges. One airline also commented that 737 aircraft can only use 3 of the 5 aerobridges at the international airport. This has led to parking problems. However, another airline commented that the current airline schedules give good availability of aerobridges. WAC claims that all aerobridges can accommodate B737 aircraft.

The overall standard of aerobridges was rated by airline survey respondents as 'satisfactory'. One airline complained that nose-in guidelines exist on only 3 of the aerobridges, while another complained that there is poor maintenance of door closure and levelling systems. Another airline commented that the aerobridges are 'tired' looking and could benefit from some repair work. The cleanliness of the stairwells which lead to the aerobridges was also commented on by one airline, which stated that they are rarely vacuumed.

WAC responds that all aerobridges are equipped with nose-in guidance systems and that doors and other systems are checked on a regular basis by technicians to ensure satisfactory operation. WAC also comments that aerobridge levelling systems have been upgraded.

1997/98-2001/02

Over the period of monitoring, Perth Airport has had five aerobridges and consistently in excess of 99% of passengers using an aerobridge for embarkation and disembarkation.

The availability of aerobridges has however consistently been rated as 'poor' to 'satisfactory' by airlines surveyed. In 1997/98 and 1999/2000 airlines commented that at peak times there could be a lack of aerobridges although availability was rated slightly higher in 2000/01. However, the average rating for 2001/02 has fallen back to levels similar to those in 1997/98 and 1999/00, and the airlines are once again commenting that there are too few aerobridges.

The standard of aerobridges was rated 'satisfactory' to 'good' in 1997/98 but has since been rated from 'poor' to 'good', and 'poor' to 'satisfactory' in 2001/02. Over the period, a number of comments have been made that the aerobridges were not well

air-conditioned. This last year has also seen a number of airlines complain about the general maintenance and cleanliness of the aerobridges.

Check-in facilities

The quality of check-in facilities at Perth Airport was assessed using airline surveys, passenger perception surveys, and information provided by WAC.

2001/02

Perth Airport had 24 check-in desks at 30 June 2002, the same number as at the end of the previous year.

As an indication of availability, Perth Airport reported that on average, 80% or more of desks were in use for 24 hours per month, compared to 30 hours per month last year. Of passengers surveyed, 88.5% rated the waiting time at check-ins as 'good' to 'excellent'. This is identical to last year's results. Similarly, 95.5% of passengers surveyed rated their satisfaction with the check-in system overall as 'good' to 'excellent'. This is a slight improvement on last year's results.

However, ratings for availability of check-in facilities by airlines surveyed showed a marked decline compared to last year, with airlines rating availability as predominantly 'poor', apart from one 'satisfactory' rating. Last year, airlines generally rated the availability of check-in desks as 'satisfactory'. All six airlines responded that there are insufficient check-in counters available, with some commenting that this was especially true during peak periods. One airline also commented that there is a lack of luggage conveyor belts.

One possible explanation for the differing perceptions of passengers (in relation to check-in desk waiting time) and airlines (desk availability) is that the passenger surveys include a mix of peak and off-peak passengers. By contrast, the airlines' comments tend to focus particularly on availability at peak hours.

WAC comments that it is working with industry to replace the existing counters with 38 new counters, which will meet contemporary standards. This will include an upgrade of the baggage system to meet current standards and improve flexibility. Once final agreement has been reached with the airlines, WAC foresees construction commencing in July 2003.

The standard of check-in facilities was predominantly rated by airline survey respondents as 'poor', compared to 'satisfactory' the previous year. Comments were received that facilities are cramped and of a poor design, that there are breakdowns of the baggage conveyor belt and that desks are in need of replacement. Similar comments were made in the previous year.

As noted above, WAC intends to replace the existing counters with 38 new ones next year. Furthermore, WAC comments that there were 6 check-in baggage belt breakdowns recorded during the period in question, and that all of these breakdowns were directly attributable to incorrect loading of soft or loose bags by airline staff.

1997/98-2001/02

For each year of monitoring, over 85% of passengers have rated waiting times at check-in desks as 'good' to 'excellent'.

The availability of check-in desks has, however, generally been rated by airlines as 'poor' to 'satisfactory', although the ratings this year appear to be lower than last year. A comment made by a number of airlines over the period of monitoring has been that there are insufficient desks at peak periods.

The standard of desks has also generally been rated by airlines as 'poor' to 'satisfactory'.

Government inspection

The quality of Government inspection at Perth Airport was assessed using passenger perception surveys, a survey of ACS, and information provided by WAC.

2001/02

Perth Airport had 16 inbound immigration desks and 10 outbound immigration desks at 30 June 2002, the same as at the end of the previous year.

Approximately 97% of passengers surveyed rated the waiting time at Government inspection (outbound) as 'good' to 'excellent'. Government inspection waiting time (inbound) was rated as 'good' to 'excellent' by about 83.5% of passengers. These results are similar to last year's.

As they did last year, ACS rated the availability of adequate areas for circulation and queuing at immigration (arrivals) as 'satisfactory'. The standard of the facilities were also rated as 'satisfactory', a decline on last year's rating of 'good'. ACS commented that the area is looking run down, carpets are stained and Primary Inwards/Outwards modules are outdated. However, WAC state that upgrading or replacement of Primary Inwards/Outwards modules are the responsibility of Customs. In addition, WAC states that existing floor coverings will be the subject of a maintenance review although floor coverings were to be replaced as part of an ITB upgrade. However, WAC and the airlines were not able to reach agreement on the terms of the upgrade.

With regards to immigration/departure facilities, ACS again rated the availability of circulation space to avoid congestion, signage, and appropriate provision of desks as 'poor'. The standard of these facilities, however, was rated as 'good'. This result is identical to the previous year's. ACS again commented that the departure hall is small and can become congested at peak times. WAC comments that as the ITB refurbishment project did not proceed, WAC will be conducting a review of ITB operational space requirements once updated forecasts have been received.

1997/98-2001/02

Survey results from ACS have been available since 1998/99. Availability of facilities for processing arriving passengers has been rated as 'satisfactory' to 'good' and the standard of facilities has also been rated as 'satisfactory' to 'good'. At peak times however, the facilities may suffer from a lack of space.

For departing passengers, the availability of circulation space has been rated as 'poor' for each year surveyed. In 1998/99, ACS commented that an additional two desks were required to process passengers at peak times. However, no additional desks have been installed.

In 1997/98, 94% of passengers surveyed perceived the waiting time for inbound government inspection as being 'good' to 'excellent'. This declined to 87% in 1998/99. However, since this time, an increasing number of passengers have found the waiting time of inbound inspection as being 'good' to 'excellent'.

Likewise, 95% of passengers surveyed found the waiting time for outbound government inspection services to be 'good' to 'excellent' in 1997/98. This figure decreased slightly in 1998/99 to 90% but has been increasing since.

The Commission notes that while passenger surveys have consistently rated waiting time as 'good' to 'excellent', congestion at peak times has been identified as a problem by ACS over the period of monitoring.

Security

The quality of security at Perth Airport was assessed using passenger perception surveys and information provided by WAC.

2001/02

Perth Airport had three security systems at 30 June 2002, an increase of one on last year's results. The additional security system was installed to cater for domestic operations by Virgin Blue. This security system has now been transferred to the WAC domestic terminal.

As with the previous year, approximately 94% of passengers surveyed rated the overall quality of the security clearance system as 'good' to 'excellent'. This rating includes waiting time, helpfulness and courtesy of staff, and the adequacy of security clearance in making passengers feel safe.

1997/98-2001/02

For each year of monitoring, over 90% of passengers surveyed have rated the quality of this function as 'good' to 'excellent'.

Gate lounges

The quality of gate lounges at Perth Airport was assessed using passenger perception surveys and information provided by WAC.

2001/02

At 30 June 2002, there were 355 seats provided in the gate lounges at Perth Airport, identical to last year's figure. For the 2001/02 year, international passenger numbers were 0.55% lower than for the previous year.

Similar to last year, 90.5% of passengers surveyed rated gate lounges at Perth Airport as 'good' to 'excellent'. Aspects of gate lounges covered in the customer perception survey were availability and comfort of seating and circulation space.

1997/98-2001/02

In each survey, over 80% of passengers have rated gate lounges as 'good' to 'excellent'.

Baggage processing facilities and trolleys

The quality of baggage processing facilities and trolleys at Perth Airport was assessed through airline surveys, passenger perception surveys, a survey of ACS, and information provided by WAC.

2001/02

At 30 June 2002, Perth Airport had a baggage system with a capacity of 5,760 bags per hour for outbound baggage, and 8,640 bags per hour for inbound baggage. Capacity has not changed over the past four years. In terms of baggage handled, there was a decrease in outbound baggage items of 55,107 items, or 5.0%.

Airlines surveyed rated the availability of the baggage processing facilities as 'poor', a slight decline on last year's results. One airline commented that there is a lack of baggage belts and sortation devices, whilst several others commented that the split baggage conveyor system is in need of an auto-sort system and integration. As noted earlier, WAC has commented that it intends to upgrade the existing baggage system to meet contemporary standards.

While this may indicate a problem with availability, 85% of arriving passengers surveyed rated waiting time for baggage as 'good' to 'excellent' which was similar to the preceding year's results.

Airline survey respondents rated the standard of facilities as 'poor' to 'satisfactory' which is similar, but slightly lower than last year's results. One airline commented that lack of regular preventative maintenance resulted in one belt being unavailable for an extended period of time. WAC however claims that regular preventative maintenance is undertaken as a result of 3, 6, and 12 month inspections. In addition, WAC technical staff carry out weekly performance inspections.

Two other airlines commented that the baggage make-up room is congested due to the number of containers around them. One of these airlines also pointed out that the make-up area now also includes Customs' x-ray machines and Group 4 Security's x-ray equipment which are set up across from the belt and transfer bags at regular intervals between the make-up area and the x-ray machines. WAC, however, suggests that congestion in the baggage room is likely attributable to the demise of Ansett as a ground handler with consequential pressure being placed upon Qantas facilities within the makeup area. An "in line" system is planned to be in place by December 2004.

Approximately 78.5% of passengers surveyed rated the quality of baggage circulation space as 'good' to 'excellent'. This is an increase on the previous two years' results.

Seventy-two and a half percent (72.5%) of passengers surveyed rated the quality and mobility of baggage trolleys at Perth Airport as 'good' to 'excellent'. This represents a small decline on last year's results. About 80% of passengers rated the availability and findability of trolleys as 'good' to 'excellent'. This result is very similar to last year's.

ACS rated the availability of facilities such as space to avoid congestion, provision of passenger privacy and security at baggage inspection (arrivals) as 'satisfactory', the same as the previous year. The standard of these facilities was rated as 'poor', a noticeable decline on last year's rating of 'good'. ACS commented that the area is

tight for space due to both Virgin Blue using the International Terminal facilities, and the current refurbishments being undertaken at the terminal. ACS also commented that the area looks run down, but expects that to change when the baggage examination refurbishment is completed in early November. Virgin Blue has since relocated to the Domestic Terminal.

1997/98-2001/02

The capacity of the baggage system both for outbound and inbound baggage has remained unaltered since monitoring commenced in 1997/98.

After generally rating the system 'satisfactory' over the first four years of monitoring, this year has seen a decline in the ratings airlines have given to both availability and standard of baggage processing facilities. Following the first year of monitoring, airlines commented that congestion occurred at peak times and that jamming and breakdowns occurred regularly. These comments were not repeated in the following year. In 1999/2000 however, several airlines commented on congestion in the baggage make-up area. Airlines are again complaining about congestion this year, both in terms of the availability and standard of facilities in the make-up area.

ACS has rated the system as 'satisfactory' but also commented on insufficient space at peak times.

Flight information displays

The quality of flight information displays at Perth Airport was assessed using passenger perception surveys.

2001/02

As for 1999/2000, nearly 80% of passengers surveyed rated their satisfaction with flight information displays as 'good' to 'excellent'. This represents an appreciable decline on last year's result of approximately 90%. Similarly, while 78% of passengers rated their satisfaction with the adequacy of flight information display monitors as being 'good' to 'excellent', this result was again a decline on the last year's ratings.

1997/98-2001/02

The facilities have consistently been rated highly over the period of monitoring, although the ratings for the past year have declined somewhat.

Washrooms

The quality of washrooms at Perth Airport was assessed using passenger perception surveys.

2001/02

Approximately 86% of arriving passengers who used the facilities, rated the overall standard of the washrooms as being 'good' to 'excellent'. This represents a noticeable increase on last year's result of 76%. Approximately 80% of departing passengers who used the washrooms rated the facilities as being 'good' to 'excellent'. This is a similar result to last year.

1997/98-2001/02

The washrooms have been consistently rated highly over the period of monitoring and WAC has refurbished some facilities and improved cleaning around busy periods.

Car parking and kerbside access

The quality of car parking and kerbside access at Perth Airport was assessed using passenger perception surveys and information provided by WAC.

2001/02

As at 30 June 2002, Perth Airport had 1,077 car parking positions at the international terminal. There were also 1,064 car parking spaces at the domestic terminal as at 30 June 2002. There has been no change in the number of spaces available.

For those passengers surveyed who used the car park, approximately 90% rated the overall quality of the facilities at Perth Airport as 'good' to 'excellent'. This compares very favourably with the previous two years' results of around 80%. However, the Commission notes a sizeable increase in the number of passengers complaining about the cost of parking, increasing from 36.4% of people providing comments in 1999/2000 to 56.3% in 2000/2001 and 80.0% in 2001/02.

Kerbside access is required to allow passengers to be dropped off and picked up by taxis, buses and other vehicles. In this case, approximately 86% of passengers catching a taxi from the International Terminal rated the overall experience as 'good' to 'excellent'. This is slightly lower than the previous year's results.

1997/98-2001/02

Passenger surveys have consistently rated the car parking facilities and kerbside access as 'good' to 'excellent'.

Consultation with airlines

The quality of WAC's consultation procedures were assessed through airline surveys and a survey of ACS.

2001/02

The Commission asked airlines to rate and comment on WAC's performance in addressing airline concerns on quality-related issues. The responses were generally 'satisfactory'. Only one airline provided specific comments with regard to this indicator, although this related to consultation since 1 July 2002.

ACS rated the overall responsiveness of WAC as 'good'. No comments were provided.

1997/98-2001/02

Over the first four years of monitoring, consultation between WAC and the airlines was rated as 'satisfactory' to 'good', and it was commented in 1999/2000 that WAC addressed concerns promptly. However, the last year has seen a noticeable decline in satisfaction ratings by the airlines. The Commission notes that one airline commented on the lack of consultation over the provision and pricing of aeronautical services post-deregulation.

2. Regulatory accounts reporting

This section reports on Perth Airport's financial accounts. First an outline of the financial reporting requirements is given, followed by a summary of figures from the financial accounts of Perth Airport for the 2001/02 financial year.

2.1 The Commission's Approach

Under Part 7 of the Airports Regulations made under the Airports Act, operators of the core-regulated airports are required to provide the Commission with annual financial accounts no later than 90 days after the end of the accounting period.⁴ The accounts include a Profit and Loss Statement, Balance Sheet, and Statement of Cash Flows. In addition, other supporting information, such as statements on accounting policies and cost disaggregations between aeronautical and non-aeronautical costs are required.

All information provided to the Commission must be audited. To authenticate this, a director's responsibility statement must be signed by at least two directors stating that the accounting statements and supporting schedules are presented 'fairly' and in accordance with the published guidelines⁵, the Airports Act, and the regulations made pursuant to that Act.

WAC completed its audited regulatory accounts in the required 90 days following the end of the financial year. The Commission concluded that WAC had prepared its accounts in accordance with the guidelines.

2.2 Westralia Airports Corporation, regulatory accounts 2001/02

WAC reported on a period of activity from 1 July 2001 to 30 June 2002. Over the entire airport, a loss after interest and tax of \$8.17 million was reported. This result was significantly affected by interest expense which totalled \$39.1 million.

As at 30 June 2002, WAC controlled total assets valued on a cost basis at \$659.2 million. Of this total, \$409 million comprised a 'lease premium', which represented the cost of acquiring the airport business in excess of the net tangible assets acquired. Perth Airport also states that it commissioned an independent valuation of land, buildings and civil works during the course of the year. The valuation was approximately \$84m higher than the book value, but has not been adopted in the accounts by Perth Airport.

⁴ Phase I airports refer to Melbourne, Brisbane and Perth Airports.

⁵ ACCC, *Regulatory Information Requirements under Part 7 of the Airports Act 1996 and Sections 21 and 27A of the Prices Surveillance Act 1983: Guideline –Version No.2, September 1998.*

WAC's independent auditors attested to the appropriateness of its systems and records which enabled it to comply with the requirement to separate accounting information between aeronautical and non-aeronautical activities.

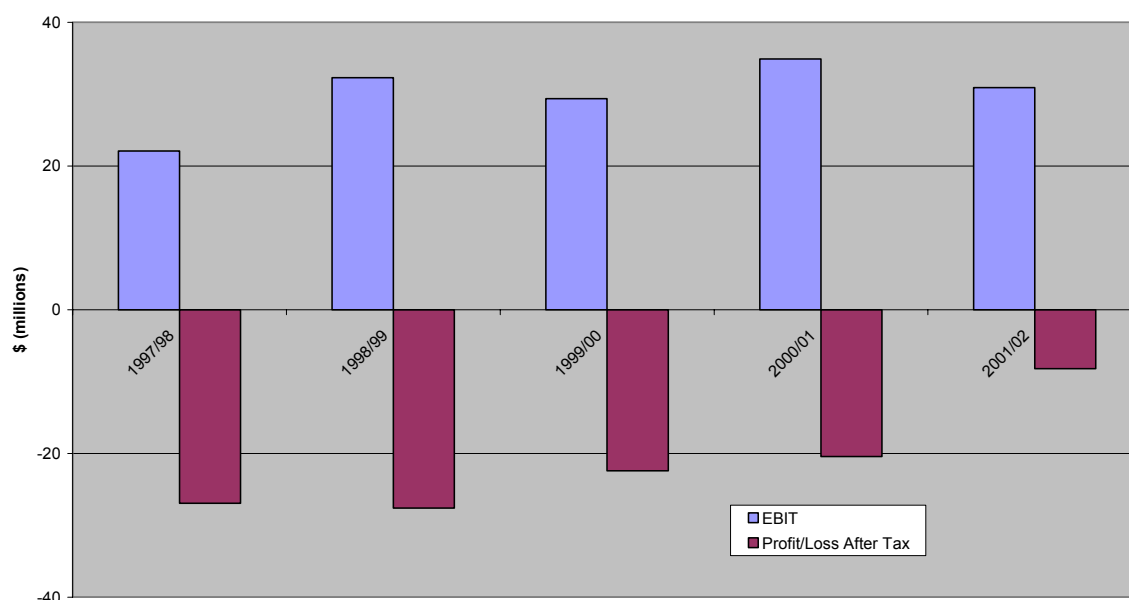
WAC used an Activity Based Costing (ABC) system to determine the disaggregation of costs and fixed assets between aeronautical and non-aeronautical services.

Some examples of the allocation methods used in WAC's ABC system included:

- the allocation of salaries and related on-costs was conducted at the individual employee level, based on the employee's role or function;
- depreciation expenses were derived from the cost allocation of the underlying assets. Where possible, assets were allocated to final activities, which were linked to the services that were most influenced by the level of output from that activity;
- maintenance is allocated to activities most closely linked to the asset being maintained (eg. runway maintenance to aircraft movements);
- overheads associated with employees (such as staff training and motor vehicle costs) were allocated consistently with the associated staff costs.

Chart 3 shows changes in Perth Airport's profitability for the period of reporting, both before and after interest and tax. Although results have improved since 1997/98, and the loss after interest and tax has diminished, 2001/02 saw a fall from the previous year's level of earnings before interest and tax.

Chart 3: EBIT & Profit over period 1997/98 – 2001/02



A summary of the regulatory accounts is attached at Appendix 5.

3. Price cap compliance

This section details Perth Airport's price cap compliance over the 2001/02 financial year.

3.1 The Commission's role

Under the regulatory regime applicable at 30 June 2002, certain aeronautical services at Perth Airport were declared under section 21 of the PS Act for price surveillance. Declaration 87 made by the Treasurer pursuant to the PS Act declared the services at Phase I airports. The declaration covered aircraft movement areas (eg. runways, aircraft parking areas) and passenger processing areas (eg. aerobridges, departure lounges).⁶

At all privatised 'core regulated' airports, declared services were subject to CPI-X price caps. The X factors were based on expected productivity improvements.⁷ The X factor for Perth Airport was 5.5 per cent per annum and was set for five years from 1 July 1997. The Treasurer's Direction 24 sets out details of the price cap formula, the X values and other issues relevant to the Commission's administration of the cap.⁸

Declaration required airport operators to notify the Commission of a proposal to increase charges on the services covered by the declaration. The legislative framework did not give the Commission the discretion to object to proposed price increases that fall within the parameters set by the price cap.

3.2 Price cap compliance 2001/02

Price cap compliance is calculated on a revenue-weighted average price basis. According to this approach, increases in particular charges are weighted by that component's proportion of revenue for the previous period.

Aeronautical services at Perth Airport are subject to a price cap set at CPI less an X factor of 5.5 per cent per annum. The relevant CPI figure used to assess price cap compliance in the 2001/02 period was 2.8 per cent, so that that WAC was required to lower its average aeronautical charges by 2.7 per cent (5.5 – 2.8). In addition Perth Airport had an over recovery from previous years of 1.8⁹ per cent so that to comply it would need to lower charges by 4.5 per cent.

A summary of movements in charges subject to the cap is provided in Table 3 below.

⁶ A copy of Declaration 87 is available on the Commission's website, under Airports.

⁷ For a detailed explanation of the arrangements see Australian Competition and Consumer Commission, "*Administration of Airport Price Cap Arrangements*", January 1997.

⁸ A copy of Direction 24 is available on the Commission's website, under Airports.

⁹ Minor adjustments have been made to previous year figures so that the carryover in Table 4 may not exactly match the carryover published in previous years' regulatory reports.

Table 3: Charges subject to price cap at beginning and end of 2001/02

Charge	Basis	Charges 30/6/01 (incl. GST)	Charges 30/6/02 (incl. GST)
Landing charge, Domestic	Per landing \$/tonne MTOW	\$5.44	\$6.30
Landing charge, International	Per landing \$/tonne MTOW	\$2.23	\$2.23
International Terminal charge	Per landing \$/tonne MTOW	\$4.27	\$4.27
Parking	Per day in General Aviation area	\$10.96	\$10.96
Vehicle Access Charges	Taxis unbooked	\$1.10	\$1.10
	Taxis pre-booked,	\$2.20	\$2.20

Note: The final charges include a one-off increase and necessary new investment component, each of which is excluded from the price cap calculations.

Direction No 24 – One-off price increase due to suspension of services by Ansett

After the suspension of services by Ansett Airlines in October 2001, the Government directed the Commission to allow a price increase for the following airports - Brisbane, Melbourne and Perth. Direction 24 specified that the price increase was to be based on a percentage of each airport's starting point prices¹⁰. The starting points for the price cap arrangements were the Federal Airports Corporation prices as at 1 January 1997.

Direction 24 allowed Perth Airport to increase its charges by 7.2% of starting point prices for aeronautical services regulated by the price cap. As the one-off increase was allowed outside the price-cap, the charges used to assess price cap compliance have not been adjusted.

For the purposes of price cap compliance, domestic landing revenue has been adjusted to incorporate credits notes issued to Skywest and Ansett by Perth Airport.

To assist the Commission in assessing price cap compliance at Perth Airport, WAC provided disaggregated revenue data for aeronautical services for the 2001/02 financial year. The information provided also included the number of units (eg. tonnes landed) and annual revenue for each category of charges. A summary of price cap compliance at Perth Airport is provided in Table 4 below.

¹⁰ Direction No 24 pursuant to the *Prices Surveillance Act 1983* is available on the ACCC's website at <http://www.accc.gov.au>.

Table 4 : Aeronautical revenue and price cap compliance for period ended 30 June 2002

Description	Number of Units	Base Charge (Price per unit)	Revenue 2001/02	Compliance price (\$)	Rate Variation (% change)	Revenue Share 2000/01	Compliance (%)
Landing Charges:							
Domestic	1,477,649	\$4.97 per 1000kg MTOW	\$6,576,369	\$4.79	-3.56%	45.6%	-1.62%
International	935,285	\$3.60 per 1000kg MTOW	\$1,893,017	\$2.02	-43.79%	24.1%	-10.53%
International Terminal Charges	1,768,287	\$2.85 per passenger	\$5,991,154	\$3.39	19.08%	27.8%	5.31%
Vehicle access charges – taxis	416,490	\$1 per passenger	\$416,490	\$1	0%	2.5%	0.00%
Parking Charges	1,144	\$9.99 per aircraft	\$11,395	\$9.96	-0.29%	0.1%	0.00%
Actual reduction in charges (2001/02)							-6.85%
Required reduction to comply with cap							
CPI-X, 2.8-5.5							-2.70%
Past Over-Recovery							1.76%
Required reduction for compliance							-4.46%
Under-recovery % (2001/02)							-2.39%
Under-recovery of revenue (2001/02)							(\$368,075)
Over-recovery brought forward (2000/01)							\$871,409
Total revenue over-recovery (end 2001/02)							\$503,333

Note: 1) Revenues and charges are exclusive of GST.

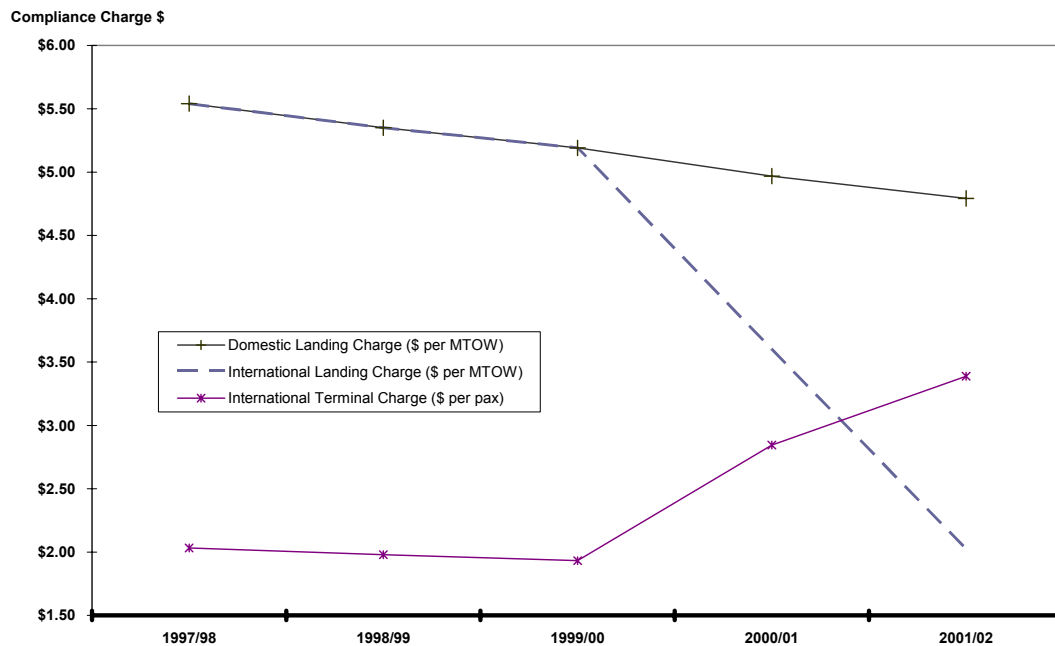
2) Revisions have been made to previous year's calculations. This has decreased the amount of the over recovery that has been carry forward from previous years.

Based on the above reconciliation, Perth Airport reduced charges for the 2001/02 period by 6.85%, against a required reduction of 4.46% to comply with the cap. Taken with the over-recovery of revenue carried forward from 2000/01 of \$871,409, this has led to a total over-recovery of \$503,333 as at the end of 2001/02.

3.3 Price cap compliance 1997/98-2001/02

The price cap arrangements that applied to aeronautical services at Perth Airport concluded at the end of 2001/02. The price cap regime was a CPI-X regime that provided the flexibility for Phase I airports to decrease their charges over the five year period. A summary showing the changes in the two main charges (landing and international terminal)¹¹ for the period is shown in Chart 4 below.

Chart 4 – Perth Airport Price Cap Compliance Charges 1997/98-2001/02



Note: The international terminal charge changed from a per tonne basis to a per passenger basis in 2000/01. In the chart above, an approximately equivalent passenger-based charge has been estimated for the years up to 1999/00, based on the year-to-year percentage changes reported in the published estimates of price cap compliance. Other prices included in this chart are those used for calculating price cap compliance.

In 1997/98 the international and domestic landing charge at Perth Airport was \$5.54. In 2001/02 the international and domestic landing charges had decreased to \$4.79 and \$2.02 respectively¹². The greatest year-on-year decrease in the domestic landing charge during the period occurred in 2000/01. The domestic landing charge decreased from \$5.19 in 1999/00 to \$4.97 in 2000/01 - a decrease of 4.28%. The greatest year on year decrease in the international landing charge during the period occurred in 2001/02. The international landing charge in 2000/01 was \$3.60 and in 2001/02 was \$2.02 – a decrease of 43.8%.

The international terminal charge levied by Perth Airport in 1997/98 was \$2.70 per tonne. This declined in early years, before Perth Airport re-structured its charges in

¹¹ The international terminal and landing charges make up a large proportion of total revenue collected by Perth Airport. In 2001/02 these charges provided Perth Airport with 97.5% of its price cap revenue for the year. (The landing charge accounted for 69.55% and the international terminal charge accounted for 28.0% of price cap revenue.)

¹² Excluding necessary new investment and one-off price increase.

2000/01. At that time, the international terminal charge was changed to a per passenger charge, and increased by around 47%, while at the same time, the international landing charge was significantly reduced. In 2001/02 the terminal charge had increased by a further 19% to \$3.39 per passenger¹³.

The reduction in the landing charges in 2001/02 led to a total under recovery for the year of \$368,075. As at the end of 2001/02 Perth Airport had a net over-recovery of \$503,333.

3.4 Revenues and expenditures for security functions for 2001/02

The price cap regime allows airport operators to ‘pass-through’ to users 100 per cent of the costs related to Government-mandated airport security requirements, without those increases affecting compliance with the price cap. Under Direction 20 pursuant to Section 20 of the PS Act, the Commission is directed to allow the airport operator to charge sufficient to recover the direct costs for providing mandated security requirements. Any over-recovery, or under-recovery, of the costs incurred in providing these security functions in a particular year is factored into future charges.

The requirements cover Australian Protective Services, Checked Baggage Screening and Passenger Screening. The sections below show the costs and revenues over the year in the provision of these requirements.

Australian Protective Services

Perth Airport provided revenue and expenses aggregates for the year showing that it under-recovered costs by \$189,026 for Australian Protective Services (APS), as shown in Table 5 below.

At the start of 2001/02 Perth Airport set a charge for APS of \$0.953 (incl. GST) per tonne. This charge was changed on 1 August 2001 to \$0.902 (incl. GST) and 1 November 2001 to \$1.526 (incl. GST).

Table 5: Australian Protective Services revenue and costs, 2001/02

APS revenue	\$2,829,796
APS expenses	(\$3,018,822)
Under recovery of costs, 2001/02	(\$189,026)

Based on the data provided, the Commission is satisfied that Perth Airport complied with the provisions of the direction for the 2001/02 financial year.

¹³ Excluding necessary new investment and one-off price increase.

Checked Baggage Screening

At the start of the 2001/02 the charge was \$0.570 (incl. GST) per departing international passenger. This charge was changed on 1 August 2001 to \$0.66 (incl GST) and on 1 November 2001 to \$0.728 (incl. GST).

Perth Airport under-recovered costs of \$183,438 on providing Checked Baggage Screening (CBS) over the year to 30 June 2002 as shown in Table 6 below.

Table 6: Checked Baggage Screening revenue and costs, 2001/02

CBS revenue	\$430,737
CBS expenses	(\$614,175)
Under recovery of expenses, 2001/02	(\$183,438)

Based on the data provided, the Commission is satisfied that Perth Airport complied with the provisions of the direction for the 2001/02 financial year.

Passenger Screening

At the start of 2001/02 the charge was \$0.899 (incl. GST) per departing international passenger. This charge was changed on 1 August 2001 to \$1.177 and on 1 November 2001 to \$1.594. Perth Airport under-recovered costs of \$190,996 on providing passenger screening as shown in Table 7 below.

Table 7: Passenger Screening revenue and costs, 2001/02

Passenger Screening revenue	\$1,131,714
Passenger Screening expenses	(\$1,322,710)
Under recovery of expenses, 2001/02	(\$190,996)

Based on the data provided, the Commission is satisfied that Perth Airport complied with the provisions of the direction for the 2001/02 financial year.

4. Monitoring of aeronautical-related services

This section covers the Commission's role in the monitoring of aeronautical-related services which are outside the price cap arrangements. It begins with an outline of the Commission's approach to monitoring and is followed by a report on the activities of Perth Airport for the 2001/02 financial year.

4.1 The Commission's monitoring role

In May 1998 the Treasurer directed that aeronautical-related services be the subject of formal price monitoring pursuant to section 27A of the PS Act. The monitoring covered the costs, revenues and profits of certain services. The rationale for monitoring was that airport operators may exert significant market power in relation to the monitored services at individual airports. As such, the Government considered that these services should be monitored for misuse of any market power the airport operator may have in setting prices.

Aeronautical-related services include aircraft refuelling, aircraft maintenance sites and buildings, freight facilities, and car parking. A full list of aeronautical-related services is given in the Treasurer's Direction No. 21, available on the Commission's web site. For a more complete outline of the Commission's monitoring role, see the Commission publication titled *Regulatory Information Requirements under Part 7 of the Airports Act 1996 and Sections 21 and 27A of the Prices Surveillance Act 1983: Guideline – Version No.2, September 1998..*

Under section 27B of the PS Act, the Commission is required to report annually to the Treasurer on its formal prices monitoring activities. The Commission is also required to make its reports publicly available.

In exercising its role, the Commission may investigate particular pricing issues where users have raised concerns and it appears that the airport operator may have taken advantage of its market power. To date this has included the proposed imposition of fuel throughput levies at Brisbane and Perth Airports.

These issues, as they have applied to WAC for 2001/02, are reported on and discussed below.

4.2 Price monitoring – Perth Airport, 2001/02

WAC provided the Commission with data for the year ending 30 June 2002. The data is summarised in Tables 6 and 7 below, and includes revenues and costs for services related to:

- aircraft refuelling;
- aircraft maintenance sites and buildings;
- freight equipment storage sites;
- ground support equipment sites;
- check-in counters and related facilities; and
- public and staff car parks.

Table 6: Monitored services: Aero-related costs for 1999/00 to 2001/02

Description	Costs 1999/00	Costs 2000/01	Costs 2001/02
	\$'000	\$'000	\$'000
AERO-RELATED SERVICES			
Refuelling services	201	249	394
Fuel Throughput	86	19	1.5
Aircraft maintenance sites & buildings	912	1,131	1,807
Cargo facility sites & buildings	237	294	658
Ground support equipment sites	105	130	125
Check-in counters and related facilities(1)	197	179	135
Public car parking	1,962	1,977	1696
Staff car parking	55	51	20
TOTAL AERO-RELATED COSTS	3,755	4,030	4,836

Table 7: Monitored services: Aero-related revenue for 1999/00 to 2001/02

Description	Basis of Charge(s)	Revenue 1999/00	Revenue 2000/01	Revenue 2001/02
		\$'000	\$'000	\$'000
AERO-RELATED SERVICES				
Refuelling services	\$ per square metre	360	352	351
Fuel throughput	litres	727	677	557
Aircraft maintenance sites & buildings	\$ per square metre	1,474	1,680	1,583
Cargo facility sites & buildings	\$ per square metre	408	447	884
Ground support equipment sites	\$ per square metre	105	107	112
Check-in counters and related facilities	Number of counters	491	479	747
Public car parking	Number of cars	7,908	7,816	7,758
Staff car parking	N/A ¹⁴	419	422	458
TOTAL AERO-RELATED REVENUE		11,892	11,980	12,451

Note: The cost of land has not been included in the cost of aeronautical related revenue.

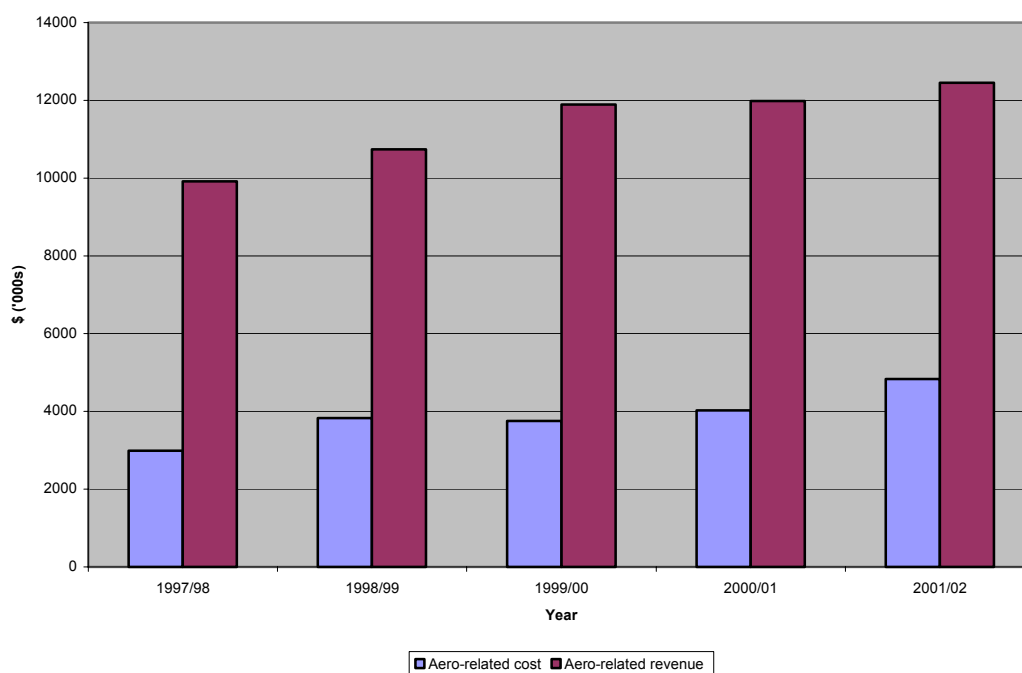
While the above tables indicate that revenues exceeded costs, it is important to note that the costs did not include amortisation of intangible assets or interest. These were significant, amounting to \$46.6 million in 2001/02 for the whole corporation, or 55.3% of total costs. The Commission asked that these items be excluded for the purposes of the monitoring reports because (a) their allocation to services would have involved a degree of subjectivity, and (b) there would be risk of circularity if an allocation of the cost of the lease premium were included. However, the Commission

¹⁴ The basis for this charge has changed from previous years. The charges are based on different factors commercially negotiated with a range of tenants. The charges can be a flat rental charged per bay, or a charge for usage or a charge for the square metres occupied by the ground of the car park.

acknowledges that an allocation that recognises a cost of capital would be appropriate in any detailed analysis.

Chart 4 shows changes in aero-related costs and revenues over the period of monitoring. While aero-related revenues have increased in each year of monitoring, aero-related costs decreased in 1999/00.

Chart 4: Aero-related costs and revenues, 1997/98 to 2001/02



Tables 8 and 9 highlight changes to short-term and long-term parking rates over the period of monitoring. Please note that all prices are GST exclusive.

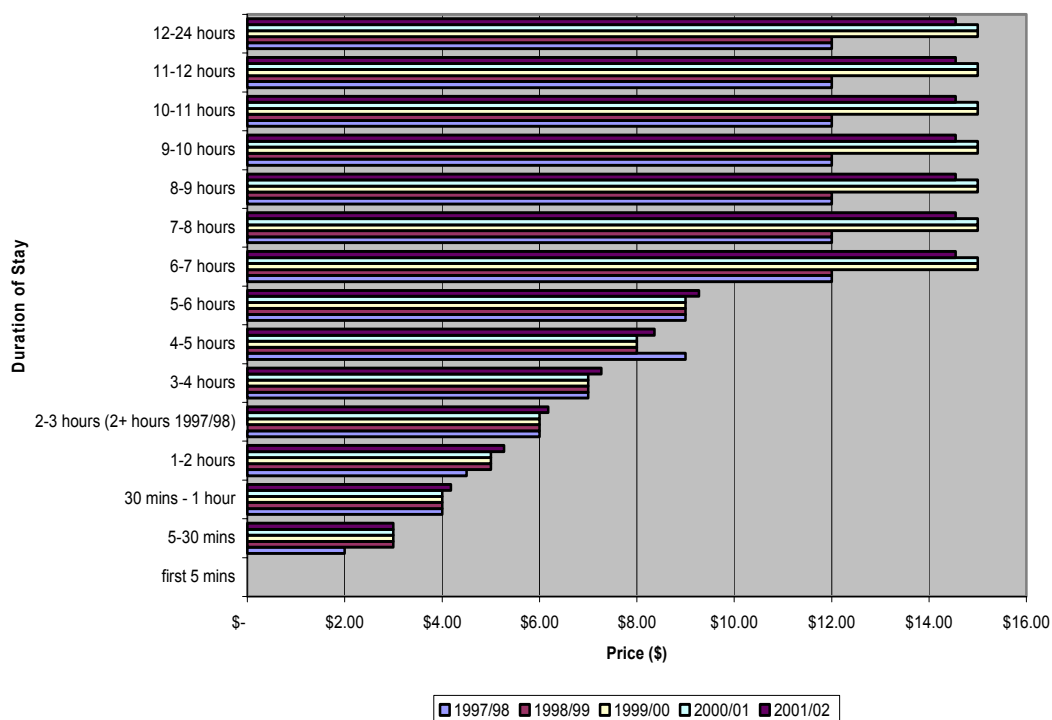
Table 8: Short-term Parking Prices at Perth Airport

Time parked	1997/98	1998/99	1999/00	2000/01	2001/02
first 5 mins	\$ -	\$ -	\$ -	\$ -	\$ -
5-30 mins	\$ 2.00	\$ 3.00	\$ 3.00	\$ 3.00	\$ 3.00
30 mins - 1 hour	\$ 4.00	\$ 4.00	\$ 4.00	\$ 4.00	\$ 4.18
1-2 hours	\$ 4.50	\$ 5.00	\$ 5.00	\$ 5.00	\$ 5.27
2-3 hours (2+ hours 1997/98)	\$ 6.00	\$ 6.00	\$ 6.00	\$ 6.00	\$ 6.18
3-4 hours	\$ 7.00	\$ 7.00	\$ 7.00	\$ 7.00	\$ 7.27
4-5 hours	\$ 9.00	\$ 8.00	\$ 8.00	\$ 8.00	\$ 8.36
5-6 hours	\$ 9.00	\$ 9.00	\$ 9.00	\$ 9.00	\$ 9.27
6-7 hours	\$ 12.00	\$ 12.00	\$ 15.00	\$ 15.00	\$ 14.55
7-8 hours	\$ 12.00	\$ 12.00	\$ 15.00	\$ 15.00	\$ 14.55
8-9 hours	\$ 12.00	\$ 12.00	\$ 15.00	\$ 15.00	\$ 14.55
9-10 hours	\$ 12.00	\$ 12.00	\$ 15.00	\$ 15.00	\$ 14.55
10-11 hours	\$ 12.00	\$ 12.00	\$ 15.00	\$ 15.00	\$ 14.55
11-12 hours	\$ 12.00	\$ 12.00	\$ 15.00	\$ 15.00	\$ 14.55
12-24 hours	\$ 12.00	\$ 12.00	\$ 15.00	\$ 15.00	\$ 14.55

Table 9: Long-term Parking Prices at Perth Airport

Time parked	1997/98	1998/99	1999/00	2000/01	2001/02 (Int.)
1 day	\$ 12.00	\$ 12.00	\$ 15.00	\$ 15.00	\$ 14.55
2 day	\$ 24.00	\$ 24.00	\$ 30.00	\$ 30.00	\$ 29.09
3 day (3+ 1997/98)	\$ 36.00	\$ 36.00	\$ 45.00	\$ 45.00	\$ 30.91
4 day	\$ 42.00	\$ 42.00	\$ 55.00	\$ 55.00	\$ 32.73
5 day	\$ 48.00	\$ 48.00	\$ 60.00	\$ 60.00	\$ 34.55
6 day	\$ 48.00	\$ 48.00	\$ 60.00	\$ 60.00	\$ 36.36
7 day	\$ 48.00	\$ 48.00	\$ 60.00	\$ 60.00	\$ 38.18
8 day	\$ 54.00	\$ 54.00	\$ 70.00	\$ 70.00	\$ 40.00
9 day	\$ 60.00	\$ 60.00	\$ 80.00	\$ 80.00	\$ 41.82
10 day	\$ 66.00	\$ 66.00	\$ 90.00	\$ 90.00	\$ 43.64
11 day	\$ 72.00	\$ 72.00	\$ 100.00	\$ 100.00	\$ 45.45
12 day	\$ 78.00	\$ 78.00	\$ 110.00	\$ 110.00	\$ 47.27
13 day	\$ 84.00	\$ 84.00	\$ 120.00	\$ 120.00	\$ 49.09
14 day	\$ 90.00	\$ 90.00	\$ 130.00	\$ 130.00	\$ 50.91
15 day	\$ 96.00	\$ 96.00	\$ 140.00	\$ 140.00	\$ 52.73

Chart 5 demonstrates changes in pricing for short-term parking at Perth Airport over the period of monitoring. As can be seen, some prices have decreased over the 2001/02 period after reaching peak levels in 2000/01.

Chart 5: Short-term parking prices, 1997/98 – 2001/02

Appendix 1: Outline of quality of service indicators

The regulations to the Airports Act specify performance indicators to be used in quality of service monitoring. These cover a range of services and infrastructure for which the airport operator has some or complete influence over. An outline of the indicators and the source of data for each is given in Table 10 below.

Table 10: Quality of service indicators

Service / Infrastructure	Type of indicator	Source of data
Runways and taxiways	<ul style="list-style-type: none"> • Various delay indicators • Various indicators of adequacy of facilities. 	Airservices Australia Survey of airlines
Gates	<ul style="list-style-type: none"> • Number of aircraft parking bays; • Satisfaction with the standard and availability of facilities. 	Airport operator Survey of airlines
Ground service equipment	<ul style="list-style-type: none"> • Satisfaction with the standard and availability of facilities. 	Survey of airlines
Freight facilities	<ul style="list-style-type: none"> • Satisfaction with the standard and availability of facilities. 	Survey of airlines
Aerobridges	<ul style="list-style-type: none"> • Number of aerobridges; • Number and percentage of passengers using aerobridges for boarding and disembarkation; • Satisfaction with the standard and availability of facilities. 	Airport operator Airport operator Survey of airlines
Check-in	<ul style="list-style-type: none"> • Number of desks; • Number of hours when more than 80 per cent of check-in desks are open; • Satisfaction with the standard and availability of facilities; • Satisfaction with waiting time. 	Airport operator Survey of airlines Passenger perception survey Passenger perception survey
Government inspection	<ul style="list-style-type: none"> • Number of desks. 	Airport Operator
Security	<ul style="list-style-type: none"> • Number of clearance systems; • Satisfaction with the system. 	Airport operator Passenger perception survey

Service / Infrastructure	Type of indicator	Source of data
Gate lounges	<ul style="list-style-type: none"> • Number of seats in gate lounges; • Satisfaction regarding quality and availability of seating and crowding. 	Airport operator Passenger perception survey
Baggage trolleys	<ul style="list-style-type: none"> • Passenger satisfaction with findability of trolleys. 	Passenger perception survey
Flight information display and signs	<ul style="list-style-type: none"> • Passenger satisfaction with the system. 	Passenger perception survey
Washrooms	<ul style="list-style-type: none"> • Passenger satisfaction with the standard of facilities. 	Passenger perception survey
Car parking	<ul style="list-style-type: none"> • Number of car parking spaces; • Throughput of the car park; • Passenger satisfaction with standard of facilities and availability of spaces and time taken to get into car park. 	Airport operator Airport operator Passenger perception survey
Kerbside access	<ul style="list-style-type: none"> • Passenger satisfaction with space and waiting time for taxis. 	Passenger perception survey

Appendix 2: Passenger survey indicators

Descriptions of each indicator and the service aspects surveyed are given below in the 'Indicator Summary' table. For ease of compilation and interpretation, a number of facilities and service ratings have been grouped together and an average rating is provided in Chart 1.

The chart depicts the percentage of passengers rating the quality of the service/facility at five or above out of seven. A rating of five has been interpreted as 'good', and a rating of six as 'very good', with a rating of seven being 'excellent'.

Table 11: Indicator summary

- *Check-in waiting time* refers to the passenger's satisfaction with the waiting time during check-in. Only departing passengers were surveyed.
- *Government inspection waiting time (inbound)* refers to the satisfaction with waiting time during the government inspection process at immigration for arriving passengers.
- *Government inspection waiting time (outbound)* refers to the level of satisfaction associated with the waiting time at customs for departing passengers.
- *Security clearance waiting time* refers to passenger satisfaction with the waiting time at security.
- *Security clearance quality* refers to the adequacy of security clearance in making a passenger feel safe for travelling.
- *Gate lounge* refers to an average figure which combines the survey results obtained for the following scale categories: the availability of seating; the amount of circulation; and the amount of seating space in the departure lounge. Departing passengers were surveyed.
- *Quality of baggage services* refers to the waiting time for baggage and passenger satisfaction with baggage information display for arriving passengers.
- *Baggage circulation space* covers the space around the particular carousel that carried baggage.
- *Baggage trolleys availability and findability* deals with the passenger satisfaction with this service.
- *Baggage trolley quality and mobility* section refers to the passenger satisfaction with this service.
- *Information display* refers to passenger satisfaction with availability of signage and the clarity and usefulness of directional and general information signs at the airport. Only departing passengers were surveyed.
- *Signage* refers to passenger satisfaction with directional and general information signs. Only arriving passengers were surveyed.
- *Washrooms arrivals* refers to the satisfaction of arriving passengers with the overall standard of facilities. Only those using the facility were included in the survey results.
- *Washrooms departures* refers to the satisfaction of departing passengers with the overall standard of facilities. Only those using the facility were included in the survey results.

- *Car parking* refers to the satisfaction with facilities and availability of car parking for departing passengers.
- *Airport access* refers to the satisfaction of passengers with the amount of congestion in the front terminal when being dropped off and the satisfaction with the amount of kerbside space available. An average of the two ratings is provided.

Appendix 3: Airline survey results

Survey responses were received from the following six airlines: Qantas, Cathay Pacific, Royal Brunei Airlines, Singapore Airlines, Malaysian Airlines and South African Airways. Ratings were given with regard to both the availability and standard of facilities. Under availability, the Commission sought from airlines an assessment of the absence of delays in being able to use infrastructure and equipment. Under standard, the Commission sought an assessment of the capability of equipment to perform the functions intended and its reliability.

A summary of the ratings provided by airlines is given in Table 12 below. This indicates that ratings were mostly 'poor' to 'satisfactory'. They tended to be lower than the results received in 2000/01.

Table 12: Responses from airline surveys*

Facility	Very Poor	Poor	Satisfactory	Good	Excellent
Addressing Airline Concerns	0	2	2	1	0
Baggage Facilities Standard	0	4	2	0	0
Baggage Facilities Availability	0	3	3	0	0
Check-in Standard	0	3	2	0	0
Check-in Availability	0	5	1	0	0
Freight Equipment Sites Standard	0	3	2	1	0
Freight Equipment Sites Availability	0	2	3	1	0
Ground Service Sites Standard	0	0	5	1	0
Ground Service Sites Availability	0	0	5	1	0
Aerobridges Standard	0	1	5	0	0
Aerobridges Availability	0	2	3	1	0
Gates Standard	0	3	2	1	0
Gates Availability	0	2	4	0	0
Taxiways Standard	0	0	5	1	0
Taxiways Availability	0	0	5	1	0
Aprons Standard	0	1	4	1	0
Aprons Availability	0	2	3	1	0
Runways Standard	0	0	5	1	0
Runways Availability	0	2	3	1	0

* Not all airlines responded to all questions.

Appendix 4: Static indicators at 30 June, 1998-2002

Indicators provided by the airport operator	1998	1999	2000	2001	2002
Number of (international) aircraft parking bays	7	7	7	7	7
Number of aerobridges	5	5	5	5	5
Percentage of passengers (embarking) using an aerobridge	Over 99%	99.6%	99.7%	99.5%	99.0%
Percentage of passengers (disembarking) using an aerobridge	Over 99%	99.6%	99.7%	99.6%	99.6%
Number of check-in desks – managed by WAC Number of international passengers per check-in desk	24 62,977	24 64,148	24 66,488	24 69,178	24 68,794
Number of baggage inspection desks	20	20	20	19	20
Number of inbound immigration desks	16	16	16	16	16
Number of outbound immigration desks	10	10	10	10	10
Number of security clearance systems	2	2	2	2	3
Number of seats in gate lounges Number of international passengers per seat in gate lounges	435 3,475	359 4,288	357 4,470	355 4,677	355 4,651
Capacity of outbound baggage handling equipment (bags per hour)	5,760	5,760	5,760	5,760	5,760
Capacity of inbound baggage reclaim system (bags per hour)	N/A	N/A	8,640	8,640	8,640
Throughput of car park per year	N/A	N/A	1,570,133	1,526,985	1,517,521
Number of car parking spaces (international)	927	853	1,077	1,077	1,077

Appendix 5: Perth Airport regulatory accounts (summary)

Statement of Financial Performance - year ended 30 June 2002¹⁵

Description	Audited financial statements	Aero services	Non-Aero services
	\$	\$	\$
Revenue			
Aeronautical revenue	20,590,617	20,590,617	
Non-Aeronautical revenue	55,536,853		55,536,853
Total Revenue	76,127,470	20,590,617	55,536,853
Expenditure			
Salaries and wages	7,987,371	4,121,346	3,866,025
Depreciation	8,170,856	4,810,401	3,360,185
Amortisation	7,529,109		
Services and utilities	8,362,796	1,857,572	6,505,224
Maintenance	2,015,665	1,082,320	933,345
Government Mandated Security costs	3,018,822	3,018,822	-
Passenger Screening	1,322,710	1,322,710	-
Checked Baggage Screening	614,175	614,175	-
Other costs	6,211,511	2,631,406	3,580,105
Total Expenditure	45,232,745	19,458,752	18,244,884
Operating Profit/(Loss)¹⁶	30,894,725	1,131,865	37,291,969
Interest Expense	39,064,226		
Profit/(Loss) Before Tax	(8,169,501)		
Tax charge	0		
Profit/(Loss) after Tax	(8,169,501)		
Dividends paid	0		
Profit/(Loss) after tax and dividends	(8,169,501)		
Opening Accumulated loss	(97,328,608)		
Closing Accumulated loss	(105,498,109)		

¹⁵ The Commission does not require an allocation of costs related to amortisation or interest expense because any allocation between aeronautical and non-aeronautical services is likely to be arbitrary.

¹⁶ Operating profit here is equivalent to Earnings Before Interest and Tax (EBIT).

Statement of Financial Performance - year ended 30 June 2001¹⁷

Description	Audited financial statements	Aero services	Non-Aero services
	\$	\$	\$
Revenue			
Aeronautical revenue	20,835,614	20,835,614	
Non-Aeronautical revenue	56,431,981		56,431,981
Total Revenue	77,267,595	20,835,614	56,431,981
Expenditure			
Salaries and wages	7,024,706	4,192,417	2,832,289
Depreciation	7,810,271	4,885,632	2,924,639
Amortisation	7,385,361		
Services and utilities	9,841,357	1,803,474	8,037,883
Maintenance	2,311,163	1,312,155	999,008
Government Mandated Security costs	2,298,779	2,298,779	-
Passenger Screening	896,052	896,052	-
Checked Baggage Screening	537,135	537,135	-
Other costs	4,247,180	2,082,087	2,165,093
Total Expenditure	42,352,004	18,007,731	16,958,912
Operating Profit/(Loss)	34,915,591	2,827,883	39,473,069
Interest Expense	55,335,535		
Loss Before Tax	(20,419,944)		
Tax charge	0		
Loss after Tax	(20,419,944)		
Dividends paid	0		
Loss after tax and dividends	(20,419,944)		
Opening Accumulated loss	(76,908,664)		
Closing Accumulated loss	(97,328,608)		

¹⁷ The Commission does not require an allocation of costs related to amortisation or interest expense because any allocation between aeronautical and non-aeronautical services is likely to be arbitrary.

Statement of Financial Position as at 30 June 2002

Description	Audited financial statements	Aero services	Non-Aero services
	\$	\$	\$
CURRENT ASSETS			
Cash	55,572		
Receivables	6,070,103	2,207,562	3,862,541
Inventories	82,399	0	82,399
Accrued revenue	4,703,066	87,572	4,615,494
Other	4,765,662	1,285,565	3,480,097
Total current assets	15,676,802	3,580,699	12,040,531
NON-CURRENT ASSETS			
Lease Franchise Fee	408,870,814		
Property, plant and equipment	206,383,992	84,463,663	121,920,329
Expenditure carried forward	24,102,020		
Other	4,194,226	2,438,326	1,755,900
Total non-current assets	643,551,053	86,901,990	123,676,229
TOTAL ASSETS	659,227,855	90,482,689	135,716,759
CURRENT LIABILITIES			
Creditors	11,547,374		
Borrowings	1,748,609		
Provisions	1,800,172	928,858	871,314
Total current liabilities	15,096,155		
NON-CURRENT LIABILITIES			
Borrowings	604,890,404		
Provisions	174,631	90,107	84,524
Total non-current liabilities	605,065,035		
TOTAL LIABILITIES	620,161,190		
NET ASSETS/(LIABILITIES)	39,066,665		
SHAREHOLDER'S EQUITY			
Share capital	144,564,774		
Accumulated profits/(losses)	(105,498,109)		
TOTAL SHAREHOLDER'S EQUITY	39,066,665		

Statement of Financial Position as at 30 June 2001

Description	Audited financial statements	Aero services	Non-Aero services
	\$	\$	\$
CURRENT ASSETS			
Cash	2,203,096		
Receivables	3,892,605	1,010,737	2,881,868
Inventories	73,995	0	73,995
Accrued revenue	5,106,837	75,525	5,031,312
Other	2,247,542	1,775,607	471,935
Total current assets	13,524,075	2,861,869	8,459,110
NON-CURRENT ASSETS			
Lease Franchise Fee	413,220,503		
Property, plant and equipment	209,460,133	88,906,101	120,554,034
Expenditure carried forward	26,149,487		
Other	3,972,750	2,216,850	1,755,900
Total non-current assets	652,802,873	91,122,951	122,309,934
TOTAL ASSETS	666,326,948	93,984,820	130,769,045
CURRENT LIABILITIES			
Creditors	15,467,074		
Borrowings	0		
Provisions	1,703,945	1,016,932	687,013
Total current liabilities	17,171,019		
NON-CURRENT LIABILITIES			
Borrowings	601,817,494		
Provisions	102,266	61,033	41,233
Total non-current liabilities	601,919,760		
TOTAL LIABILITIES	619,090,779		
NET ASSETS/(LIABILITIES)	47,236,169		
SHAREHOLDER'S EQUITY			
Share capital	144,564,774		
Accumulated profits/(losses)	(97,328,605)		
TOTAL SHAREHOLDER'S EQUITY	47,236,169		

Cash Flow Statement for years ended 30 June 2001, 2002

	Audited financial statements 2000/01 \$	Audited financial statements 2001/02 \$
<u>Cash Flows provided from (applied to) operating activities</u>		
<i>Inflows:</i>		
Receipts from customers	81,535,686	80,690,864
Interest received	508,935	385,408
<i>Outflows:</i>		
Payments to suppliers and employees	(28,114,540)	(31,033,314)
GST paid	(3,738,795)	(4,831,871)
Net cash flows provided from (applied to) operating activities	50,191,286	45,211,087
<u>Cash Flows provided from (applied to) investing activities</u>		
<i>Inflows:</i>		
Proceeds from sale of property, plant and equipment	102,477	68,152
Proceeds from reserve accounts released	(324,879)	0
Other		
<i>Outflows:</i>		
Payments transferred to reserve accounts		(2,278,980)
Acquisition of property, plant and equipment	(15,249,467)	(6,508,299)
Net cash flows provided from (applied to) investing activities	(15,471,869)	(8,719,127)
<u>Cash Flows provided from (applied to) financing activities</u>		
<i>Inflows:</i>		
Proceeds from borrowings	5,555,891	(4,544,413)
<i>Outflows:</i>		
Interest Paid	(46,041,096)	(34,095,071)
Net cash flows provided from (applied to) financing activities	(40,485,205)	(38,639,484)
Net increase/(decrease) in cash held	(5,765,788)	(2,147,524)
Cash at beginning of reporting period	7,968,884	2,203,096
Cash at end of reporting year	2,203,096	55,572

Note: During 2001/02, the treatment of Interest Paid changed. For consistency, the 2000/01 figures have been presented in the same way.

Summary of significant accounting policies

This special purpose financial report has been prepared in accordance with the Regulatory Information Requirements under Part 7 of the Airports Act 1996, Section 21 and 27A of the *Prices Surveillance Act 1983*, Accounting Standards, other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) and the Corporations Act. It is prepared in accordance with the historical cost convention.

Unless otherwise stated, the accounting policies adopted are consistent with those of the previous period. Comparative information is reclassified where appropriate to enhance comparability.

(a) Principles of Consolidation

The consolidated accounts comprise the accounts of WAC and all of its controlled entities. A controlled entity is any entity controlled by WAC. Control exists where WAC has the capacity to dominate the decision making in relation to the financial and operating policies of another entity so that the other entity operates with WAC to achieve common objectives.

All inter-company balances and transactions between the entities in the consolidated entity, including any unrealised profit or losses, have been eliminated on consolidation.

(b) Income Tax

Tax effect accounting procedures using the liability method are followed whereby the income tax expense is matched with the accounting profit after allowing for permanent differences. The future income tax benefit relating to tax losses is not carried forward as an asset unless the benefit is virtually certain of realisation. Income tax on cumulative timing differences is set aside to the deferred income tax or the future income tax benefit accounts at the rates which are expected to apply when those timing differences reverse.

(c) Foreign Currency Translation

(i) Transactions

Foreign currency transactions are initially translated into Australian currency at the rate of exchange at the date of the transaction. At balance date, amounts payable and receivable in foreign currencies are translated to Australian currency at rates of exchange on that date. Resulting exchange differences are brought to account in determining the financial performance for the year.

(ii) Specific Hedges

Hedging is undertaken to avoid possible exposure to financial effects of movements in exchange rates. Gains or losses on hedging transactions intended to hedge monetary items are brought to account in the year in which the exchange rates change. Gains or costs arising at the time of entering into such hedging transactions are brought to account in the statement of financial performance over the lives of the hedges. Any receivable or payable at balance date is offset against foreign currency borrowings as the timing of closing out hedge transactions matches the term to maturity of related borrowings and it is intended that they will be settled on a simultaneous basis.

(d) Revenue Recognition

- i) Aeronautical charges comprises Landing Fees and International Terminal charges, based on the maximum take-off weight and passenger numbers of aircraft, and a security charge for the recovery of charges imposed by Australian Protective Services and other government mandated security requirements.
- ii) Trading comprises concessionaire rent and other charges received.
- iii) Ground Transport Services comprises operation of public and leased car parks, car rental concessions, ground transport services and traffic management.
- iv) Property Revenue comprises income from owned terminals, buildings, and long-term leases of land and other leased assets.
- v) Recharge Property Service costs comprises recharged service and utility expenditure.
- vi) Interest Revenue comprises earnings on funds deposited with financial institutions.
- vii) Asset Sales comprise revenue on disposal of assets brought to account at the transaction date.

Gross revenue is raised when there is an unconditional right to receive that revenue and it can be measured reliably.

(e) Receivables

All trade debtors are recognised and carried at original invoiced amount receivable, and are due for settlement no more than 30 days from the date of recognition.

Recoverability of trade debtors is reviewed on an ongoing basis. Debts, which are known to be unrecoverable, are written off. A general provision for doubtful debts is raised together with a specific provision for debts where recoverability is deemed to be doubtful.

(f) Inventories

Inventories have been stated at the lower of cost and net realisable value. The basis of accounting for inventories is on a first-in first-out basis.

(g) Acquisition of Assets

The cost method of accounting is used for all acquisitions of assets regardless of whether shares or other assets are acquired. Cost is determined as the fair value of the assets given up at the date of acquisition plus costs incidental to the acquisition. Where shares are issued on acquisition, the value of the shares is determined by reference to the fair value of the assets acquired, including goodwill and other intangible assets where applicable.

The lease franchise fee, arising from the acquisition of the Perth International Airport lease, is brought to account on the basis described in section (j)(i) of this summary.

(h) Recoverable Amounts

The recoverable amount of an asset is the net amount expected to be recovered through the net cash inflows arising from its continued use and subsequent disposal.

Where the carrying amount of a non-current asset is greater than its recoverable amount the asset is revalued to its recoverable amount. To the extent that a revaluation decrement reverses a revaluation increment previously credited to, and still included in the balance of, the asset revaluation reserve, the decrement is debited directly to that reserve. Otherwise the decrement is recognised as an expense in the statement of financial performance.

The expected net cash flows included in determining recoverable amounts of non-current assets are discounted to their present values using a market determined, risk adjusted discount rate.

(i) Infrastructure, Plant and Equipment

(i) Cost and Valuation

The cost basis is used to attribute value to land, buildings, infrastructure, plant and equipment.

(ii) Depreciation and Amortisation

Infrastructure, plant and equipment (including infrastructure assets under lease) have been depreciated using the straight-line method based upon the estimated useful life of the assets.

Depreciation and amortisation rates used are as follows:

	2002	2001
Operational Land	1.01%	1.01%
Investment Land	0.00%	0.00%
Plant and Equipment	15.00%	15.00%
Buildings	6.25 – 15.00%	6.25 – 15.00%
Fixed Plant and Equipment	5.00 – 15.00%	5.00 – 15.00%
Runways, Taxiways and Aprons	1.01 – 6.67%	1.01 – 6.67%
Other Infrastructure Assets	6.25 – 20.00%	6.25 – 20.00%

(iii) Leasehold Improvements

Leasehold improvements have been amortised over the shorter of the unexpired period of the lease and estimated useful life of the improvements.

(iv) *Major Repairs and Maintenance*

Major asset maintenance costs incurred on runways, taxiways and aprons are capitalised and are written off over the period between major asset maintenance projects. This recognises that the benefit is to future periods and also apportions the cost over the period of the related benefit.

(v) *Non-Current Assets under Construction*

The cost of non-current assets constructed by the consolidated entity includes the cost of all materials used in construction, direct labour on the project and consultancy and professional fees associated with the project.

(j) Lease Franchise Fee and Expenditure Carried Forward

(i) *Lease Franchise Fee*

The franchise fee paid on acquisition of the Perth International Airport lease, which represents the difference between the Perth International Airport purchase price and the fair value of the net tangible assets acquired, is amortised on a straight line basis over the life of the lease, being 99 years from 2 July 1997.

ii) *Capitalised Bid Costs*

The costs incurred in relation to the Perth International Airport bid and acquisition have been capitalised and are amortised on a straight-line basis over the life of the lease, being 99 years from 2 July 1997.

(iii) *Capitalised Finance Costs and Capitalised US Note Issue Finance Costs*

All fees and costs incurred in establishing the funding facilities for the acquisition of the Perth International Airport lease and in refinancing the debt structure have been capitalised and are amortised on a straight line basis according to the term to maturity of the relevant debt issue.

(iv) *Capitalised Masterplan Costs*

All fees and costs incurred in the development of the masterplan have been capitalised and are amortised on a straight-line basis over 5 years. This represents the statutory period over which the masterplan is valid.

(v) *Aviation Development Programme*

Costs incurred relate to feasibility analysis and runway upgrades and are currently being amortised over a period of 3 years.

(k) Payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the reporting date and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(l) Borrowing Costs

Borrowing costs are recognised as expenses in the period in which they are incurred, except as noted in section (j)(iii) of this summary. Borrowing costs include:

- interest on bank overdraft and long term borrowings
- interest on short and long term subordinated debt
- interest on bonds payable (including capitalised interest component)
- ancillary costs incurred in connection with the ongoing conduct of borrowings.

(m) Derivative Financial Instruments

The consolidated entity has entered into interest rate and currency swap agreements. These derivative financial instruments are not recognised in the financial statements on inception.

The net amount receivable or payable under interest rate swap agreements is brought to account when due and payable under the terms of each contract. The amount recognised is accounted for as an adjustment to interest expense during the period.

The accounting policy for currency swaps is detailed in section (c)(ii) of this summary.

(n) Maintenance and Repairs

Maintenance, repair costs and minor renewals, excluding maintenance on runways, taxiways and aprons, are charged as expenses as incurred.

Maintenance on runways, taxiways and aprons is treated in accordance with section (i)(iv) of this summary.

(o) Employee Entitlements

Provision has been made for long service leave and annual leave payable to employees on the basis of statutory and contractual requirements. Vested entitlements are classified as current liabilities.

A liability for long service leave is recognised based on employees' current pay rates and associated on-costs in respect of services provided by employees up to the reporting date. When assessing the adequacy of the provision, consideration is given to the present value of these payments after assessing expected future wage and salary levels, experience of employee departure and period of service.

The company meets its superannuation guarantee and enterprise bargaining obligations for employer's superannuation through contributions to resident complying accumulation superannuation funds selected by employees. If an employee makes no choice, then those contributions are sent monthly to the resident complying superannuation scheme operated by Westscheme Pty Ltd. Contributions made to superannuation funds are charged against profits.

(p) Cash

For the purposes of the statement of cashflows, cash includes deposits at call which are readily convertible to cash on hand and are subject to an insignificant risk of change in value, net of outstanding bank overdrafts.

Appendix 6: Perth Airport operational statistics

Operational statistics for the years ended 30 June, 1998-2002

Description	1997/98	1998/99	1999/00	2000/01	2001/02
PASSENGERS					
Domestic passengers	3,210,006	3,264,459	3,385,825	3,560,565	3,160,085
International passengers (excluding transit)	1,511,450	1,539,550	1,595,701	1,660,275	1,651,069
International transit passengers	105,653	124,946	124,679	28,065	21,833
Domestic on-carriage	34,436	39,363	49,141	15,706	4,238
TOTAL PASSENGERS	4,861,545	4,969,318	5,155,346	5,264,611	4,837,225
AIRCRAFT MOVEMENTS					
Regular Public Transport aircraft movements	59,419	61,046	60,868	57,680	49,494
General Aviation aircraft movements	28,386	37,434	34,028	27,648	24,946
TOTAL AIRCRAFT MOVEMENTS	87,805	98,480	94,896	85,328	74,440
TOTAL TONNES LANDED	2,495,184	2,560,638	2,740,651	2,682,492	2,412,934
AVERAGE STAFF EQUIVALENTS					
- Aeronautical services	74	69	61	69	61
- Non-aeronautical services	29	25	25	30	57
TOTAL AVERAGE STAFF EQUIVALENTS	103	94	86	99	118
AREA (HECTARES)					
- Aeronautical services	1,280	1,280	1,280	1,280	1,280
- Non-aeronautical services	825	825	825	825	825
TOTAL AREA (HECTARES)	2,105	2,105	2,105	2,105	2,105