



REGULATORY REPORT

MELBOURNE AIRPORT 1999/00

April 2001

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Summary of Price Cap Compliance, Operating Financial Results and Quality of Service for Phase I and II Airports 1999/00

Price Cap Compliance

The Commission conducted price cap reconciliations for Phase I and Phase II Airports for the 1999/00 period. Table 1 summarises the price cap reconciliations for all of the Phase I and Phase II Airports for 1999/00.

Table 1: Price Cap Compliance Phase I and Phase II Airports 1999/00

<i>Airport</i>	Required reduction/increase	Actual reduction/increase	1999/00 Over/under recovery
Brisbane Airport	-3.93%	-1.32%	2.61% over
Melbourne Airport	-2.402%	-2.361%	0.041% over
Perth Airport	-4.82%	-2.84%	1.98% over
Adelaide Airport	-4.8%	-4.9%	0.1% under
Alice Springs Airport	-2.0%	-3.46%	1.46% under
Canberra Airport	0.28%	0.0%	0.28% under
Coolangatta Airport	-5.8%	-6.509%	0.709% under
Darwin Airport	-2.25%	-3.925%	1.675% under
Hobart Airport	-2.63%	-3.184%	0.554% under
Launceston Airport	-0.670%	-0.868%	0.198% under
Townsville Airport	0.84%	0.2%	0.64% under

For the Phase I Airports, Brisbane Airport has over recovered for the last two financial years. Perth Airport have over recovered its revenues in the last three financial years and it is imperative that it reduces its charges significantly in the next financial year in order to comply with the price cap. Melbourne Airport marginally over recovered in 1999/00, but taken with the net under recovery of the previous two periods has an accumulated under recovery to 1999/00.

For the Phase II Airports, Adelaide refunded the over recovery of 1998/99 by providing a rebate and has a small over recovery in 1999/00. Alice Springs decreased aeronautical

charges to bring it in line with the price cap. Canberra Airport did not amend its charges in 1999/00, but provided rebates to users in both 1997/98 and 1998/99 to have a net accumulated under recovery in 1999/00. Coolangatta Airport over recovered its revenues in 1998/99, however, reduced charges in 1999/00 to bring it in line with the price cap. Hobart Airport under recovered in 1999/00 however, taken with the over recovery in 1998/99 are still in a position of accumulated net over recovery in 1999/00. Launceston Airport has under recovered revenue over the past two years. Townsville Airport did not increase charges in 1999/00 by as much as allowed under its cap and have a net accumulated under recovery.

Operating & Financial Performance

All of the Phase I and Phase II airport operators made positive earnings before interest and tax (EBIT) in 1999/00. However, all airports with the exception of Townsville and the Government owned Sydney Airport made losses once interest and lease premiums are taken into account.

Table 2 summarises the operating financial results for the Phase I and Phase II Airports as well as that for Sydney Airport in 1999/00.

Table 2: Summary of selected Financial Results of the Phase I and II Airports as well as Sydney Airport 1999/00.

Airport	EBIT \$million	Interest \$million	Amortisation \$million	Profit / Loss after interest and tax \$million
Brisbane	68.274	69.484	23.324	(112.650)
Melbourne	87.247	107.58	6.907	(20.290)
Perth	29.360	51.758	7.359	(22.398)
Sydney	120.159	57.463	-	42.842
Adelaide	25.435	32.886	2.920	(7.131)
Alice Springs	0.330	3.022	0.086	(2.692)
Canberra	3.720	5.167	-	(2.196)
Coolangatta	3.243	5.252	-	(2.009)
Darwin	0.581	10.711	0.472	(10.130)
Hobart	1.752	1.891	0.332	(0.216)
Launceston	1.153	1.099	0.111	(0.188)
Townsville	1.359	1.029	-	0.117

Quality of service

Quality of service for the three Phase I Airports and Sydney Airport are generally satisfactory. As in 1998-99, Brisbane Airport again achieved high quality service ratings from both airline operators and passengers in 1999/00. Although Perth Airport users and passengers were satisfied, there were marginal declines in the ratings for some facilities as compared to that of 1998/99. Melbourne Airport received lower quality ratings from airlines, in 1999/00 as compared to that of the previous financial year. The airline's quality

assessment of Sydney Airport for 1999/00 is mixed and a comparison of the assessment with that of the previous period 1998/99 is ambiguous.

Passenger surveys indicated good quality standards for both airports in 1999-00. It should be noted that both Melbourne and Sydney Airports were undergoing construction works during the 1999/00 reporting period.

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

Airservices Australia was again unable to provide data on aircraft delays and has advised the Commission, that its systems would not be able deliver the required performance information. Aircraft delay indicators (see table 9) form an integral part of a framework for considering airport quality of service. The lack of information on such measures is a significant deficiency in evaluating airport quality of service.

Introduction

The Australian Competition and Consumer Commission (the Commission) has 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 comprises measures under the *Trade Practices Act 1974* (TPA), the *Prices Surveillance Act 1983* (PS Act) and the *Airports Act 1996* (Airports Act). It includes access arrangements, and a price cap on aeronautical services for the privatised Phase I and Phase II airports. The framework also includes a range of measures designed to complement the price cap and increase transparency of certain aspects of the privatised airport business.

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

The report

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

It should be noted that this report is for information only and does not provide recommendations in relation to the matters covered.

Melbourne Airport

Melbourne Airport is owned and operated by Australia Pacific Airports (Melbourne) Pty Ltd (APAM), who took over its operation from the Federal Airports Corporation (FAC) in July 1997. APAM is a wholly owned subsidiary of Australia Pacific Airports Corporation (APAC). AMP, Deutsche Asset Management, BAA plc and Hastings Funds Management are shareholders of APAC. APAC paid \$1.3 billion for a 50-year lease of the airport, with an option for a further 49-year lease at the end of this period.

This is the third regulatory report for Melbourne Airport. The Commission would like to acknowledge the cooperation received from APAM 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 Melbourne Airport. It begins by providing an overview of the Commission's role in quality of service monitoring at Melbourne Airport. Following this is a summary of the 1999/00 quality of service results for Melbourne Airport.

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

Regulations

The Commission is required to conduct quality of service monitoring pursuant to Part 8 of the Airports Act.¹ 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.

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 include 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;
- airlines, through surveys of airlines conducted by the Commission;

¹ For a detailed description see *Quality of service Monitoring Post Leasing*, ACCC February 1997

- airport operators, as required under the regulations; and
- Australian Customs Service (ACS) and Airservices Australia.

Passenger perception surveys

The same passenger perception survey has been used to conduct this year's quality monitoring as was used for the 1997/98 and 1998/99 periods. The areas covered by the passenger perception survey include passenger check-in, security clearance, government inspection, lounges, washrooms, baggage collection, signage, car parking, and vehicle access for pick-up and drop-off of passengers.

Respondents were asked to rate quality aspects such as reasonableness of waiting times; clarity of information provided, such as airport signage; and the comfort of gate lounges. A summary of results from the passenger perception survey is presented in Appendix 2.

Airline surveys

In order to gain information on the quality of airside facilities and terminal facilities, the Commission conducted a survey of the airlines that used Melbourne Airport over the 1999/00 period. Eleven surveys were received from the following airlines: Air Nauru, Air New Zealand, Air Pacific, Ansett Australia, Cathay Pacific, Gulf Air, Lauda Air, Malaysia Airlines, Qantas, Singapore Airlines, and United Airlines. The Commission will be including Impulse Airlines and Virgin Blue Airlines in the airlines surveys from 2000-01.

As part of the survey, airlines were requested to rate the availability and standard of particular facilities and services on a five-point scale ranging from 'very poor' to 'excellent'. Under the availability category, the Commission sought information from airlines regarding the availability of infrastructure and equipment and the occurrence of delays in gaining access to it. Under the standard category, the Commission sought information on the ability of equipment to perform the function intended, the reliability of the equipment and the possibility of it breaking down. A summary of results from the airline survey is presented in Appendix 3.

Airport operators

APAM was required to provide the Commission with information on the 'static indicators' for Melbourne Airport. These indicators include the number of passengers, the number of aerobridges and the size of aprons. Details of the 'static indicators' for Melbourne 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 Melbourne Airport. ACS was asked to rate the quality of immigration facilities, baggage processing facilities, and APAM's consultation procedures. Results from this survey are incorporated in the 'quality of service results' section below.

Airservices Australia provided the Commission with information regarding busiest half-hours at Melbourne Airport for the 1999/00 period (see Appendix 4 for details). Airservices

Australia, however, could not provide the Commission with data relating to aircraft delays for the 1999/00 financial year.

Issues

In assessing the quality of service at Melbourne Airport, it is important to note that there are a variety of factors outside the immediate control of APAM that may have influenced the quality of service results. The first of these is the staffing of check-in services by airlines, and similarly, staffing of immigration services by Customs, which 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 Melbourne 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 had 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.

Finally, during the 1999/00 period, Melbourne Airport was undertaking construction of the Multi User Domestic Terminal (MUDT). Such works can cause short-term disruption to airline operations and general day to day running of the airport.

1.2 Quality of service results 1999/00

The assessment of overall quality of service at Melbourne Airport is made having regard to the passenger perception survey, the airline survey, a survey of ACS, and the additional comments and data provided by APAM and Airservices Australia.

Overall, it appears that airport users and passengers were satisfied with most aspects of the facilities and services provided at Melbourne Airport. Although there were more airlines surveyed in 1999-00, the results indicated that airlines were less satisfied with certain facilities and services. For example, there were notable declines in the ratings by airlines in relation to gates at the international terminal, the standard and availability of aerobridges and check-in facilities and baggage processing facilities. The Commission found that where airlines included written comments in the survey regarding the facilities at Melbourne Airport, most of these were negative.

Runways, aprons and taxiways

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

The standard and availability of runways was rated from 'satisfactory' to 'excellent' by airlines, although most of the airlines rated the facility as 'good'. Comments received from airlines related to concerns about increased holding patterns due to new entrants, and runways being too short in bad weather.

In response to the latter comment, APAM noted that runway lengths have not been altered for some time, nor had they received any representations from users to extend either runway.

Melbourne Airport had fifteen international apron positions for aircraft parking at 30 June 2000. Overall, aprons were rated from 'satisfactory' to 'excellent' by airlines, with the majority of airlines rating the facility as 'good'. Comments received from one airline indicated an expected increase in tarmac movements and freight delivery times due to the MUDT. Another comment pointed to problems during night operation in getting sweepers to remove foreign objects from the apron.

APAM has stated that a dedicated specialist airport sweeper operates between 7am to 3.30pm six days per week, with the majority of the time focussed on sweeping aprons. An after hours emergency call out system is also in place.

Airlines rated taxiways at Melbourne Airport as 'satisfactory' to 'excellent', again with most airlines rating the facility as 'good'. A comment received from one airline indicated that due to the guidance system used at Melbourne Airport, it was often difficult to line up aircraft at the bays.

APAM have commented that the most common nose in guidance system is installed at Melbourne Airport, which is simple and reliable. Two aircraft parking bays are fitted with

newer technology which uses laser radar. APAM have made provision in the forward capital program to install similar systems at all bays by 2004/05.

Gates

The quality of gates at Melbourne Airport was assessed using information obtained from the airline surveys.

The availability of gates at Melbourne Airport was rated from 'poor' to 'excellent' by airlines, while the standard of gates was rated from 'satisfactory' to 'good'. The overall decline in the rating of gates mainly related to comments received from Airlines about the international terminal. A number of airlines commented on the practice at Melbourne Airport of allocating gates in the satellite area before other gates. This practice not only meant passengers often had a long way to walk to the gates but also led to congestion in the gate area.

In response to the comments regarding gate allocation, APAM noted that the arrangements for gate allocation have not changed in a number of years. APAM further notes that gate allocation depends on a number of factors, such as, the availability of staff who can operate the gates, gates in the satellite area are only able to service larger aircraft, and some users request gates in the satellite area out of preference. APAM note that the walking distances to even the furthers gates at Melbourne Airport are short by international standards and to those generally encountered by passengers using domestic terminals in Australia.

Ground service equipment storage sites

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

Ground service equipment storage sites were rated from 'poor' to 'good' in terms of availability and standard. Comments received from airlines indicated that there were insufficient container storage areas and that equipment parking was limited. Similar comments were received last year.

In response to these comments, APAM have again stated that it have not refused any request to make sites available for equipment storage. APAM stated that sites were available and it was happy to provide such facilities in negotiation with its customers.

Freight equipment storage sites

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

Freight equipment storage sites were mostly rated 'poor' to 'good' by airlines, with one airline rating the facilities as 'very poor'. Comments received from airlines indicated that inadequate space and lack of equipment storage sites impacted on the quality rating of this facility. A number of Airlines commented that the freight equipment storage facilities were outdated.

In addition to making the same comments as applies to ground service storage equipment sites above, APAM note that the only service provided is pavement for parking equipment and containers, and as such, fail to see how this can be outdated.

Aerobridges

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

Melbourne Airport had ten aerobridges for international aircraft at 30 June 2000. For the 1999/00 financial period, around 99 per cent of all passengers embarking or disembarking used an aerobridge.

Aerobridges were rated by airlines from 'poor' to 'excellent'. This was significantly downgraded from last year's results. Some airlines commented that there was a limited number of aerobridges suitable for Boeing 737 aircraft and that the aerobridge links were not suitable for transit flights. A number of other negative comments related to poor airconditioning, as well as problems with announcements and general cleanliness and maintenance of aerobridges.

In response to the above comments, APAM stated that the problems with airconditioning in the aerobridges had been identified and resolved; the problems with the PA announcements in aerobridges only occurred intermittently over a two month period; cleanliness problems were due to an under performing cleaner, and the issue was addressed quickly; and APAM note that preventative maintenance schedules have long been established and are generally kept up to date, as well as a fault reporting and response system.

Check-in facilities

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

Melbourne Airport had 72 check in desks at 30 June 2000.

Airlines rated the standard and availability of check-in facilities as 'poor' to 'excellent'. There was a slight decline in the rating for these facilities compared to last year, and according to the airline surveys, it appears to relate to the lack of regular maintenance of the check-in equipment. However, most airlines rated the facilities as 'satisfactory' to 'excellent'.

In response to comments made by airlines, APAM note that there are several components to check-in counters. The furniture itself is subject to a regular two-weekly maintenance inspection and, where possible, most faults are repaired immediately or as soon as possible. For several months during the year, there were difficulties experienced with the supply of spare parts for the check-in signage system, This has since been remedied. The baggage handling system at check-in experienced some problems with one of the main conveyors where large bags were setting off the safety system. This issue was addressed by APAM by the installation of side boards to the conveyor. APAM further note that the fault reporting system also cover check-in counters.

Passengers surveyed rated the waiting time at check-in as 'good' and above.

Government inspection

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

Melbourne Airport had 26 inbound immigration desks and 18 outbound immigration desks at 30 June 2000.

Passengers surveyed rated the waiting time at Government inspection outbound as 'good'. The waiting time at Government inspection inbound was rated similarly.

ACS rated the adequacy of areas provided for circulation and queuing at immigration (arrivals) as 'good'. ACS also rated signage, lighting, desks and passenger facilities for immigration (arrivals) at Melbourne Airport as 'good'. Similar comments were received from ACS for the 1998/99 period.

Comments received from ACS indicated that the 'inward' duty free shop had a negative impact on queuing and circulation for arriving passengers. ACS stated that it tended to slow the processing of passengers and contributed to some of the delays experienced in the Customs examination area for flights that had a high component of goods to declare. ACS also suggested that signage for transit passengers could be improved as some passengers get confused about which way to go. Customs has suggested that perhaps airlines could provide a person to marshal transit passengers to the transit escalator.

In response to this, APAM stated that the inward duty free shop was last reconfigured in 1997 prior to APAM taking control of Melbourne Airport, and more recently in November 2000. APAM stated that nothing has changed in the period that is subject of this report.

The quality of immigration facilities for departing passengers was rated as 'poor' mainly due to the new Customs legislation and equipment for dynamic signage necessitating the redesign of the customs office and search room in the departures area. However, a secure barrier near the primary modules was installed in the 1999/00 period following suggestions by the ACS that the location of the passenger screening point would be better if it were placed forward of the primary line, at the doors to the hall.

Security

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

Melbourne Airport had six security systems at 30 June 2000.

Passengers rated the quality of passenger screening at Melbourne airport as 'good'.

Gate lounges

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

At 30 June 2000, there were 2172 seats provided in the gate lounges at Melbourne Airport, 191 less than in the previous period (1998/99). This reduction of seats in the gate lounges was due to the introduction of new retail outlets in the International Terminal.

Passengers rated the comfort and seating arrangements of gate lounges at Melbourne Airport as 'good'. Passengers rated the crowding of gate lounges and ease of finding a seat in the gate lounges, and finding the correct gate from 'good' to 'excellent'.

Baggage processing facilities and trolleys

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

At 30 June 2000, Melbourne Airport had a baggage system with a capacity of 3060 bags per hour for outbound baggage, and 2720 bags per hour for inbound baggage. This was the same capacity as 1998/99.

Airlines rated the standard and availability of the baggage handling system at Melbourne Airport as 'very poor' to 'good'. Comments received from Airlines indicated that the significant decline from the previous year in the rating for the baggage handling system is due to scanners malfunctioning. A number of airlines suggested that the system needs upgrading.

In response to the above comments, APAM stated that the performance of the scanner arrays used in the system have been below expectations, and has deteriorated further over the last couple of years. After consultation with the airlines, APAM have installed new, enhanced scanners during December 2000. The new scanners will significantly improved the 'read rate'.

Passengers surveyed rated the ease of finding the correct belt at Melbourne Airport as 'good'. The waiting time and crowding of baggage areas was rated 'satisfactory' to 'good'. The baggage trolley facility was rated by arriving passengers as 'good' to 'excellent'. Departing passengers rated the quality of trolleys as 'good' to 'excellent'.

ACS rated the adequacy of space, signage, position, access, security, and passenger inspection facilities at Melbourne Airport as 'good'. Comments received from ACS suggested that the location of the examination area and duty free shop added to congestion. ACS did, however, recognise that due to limited space, little could be done with regard to the examination area.

Flight information displays

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

Departing passengers rated the quality of this facility as 'good'.

Washrooms

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

Passengers rated the cleanliness of washrooms as 'good'.

Car parking and kerbside access

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

Melbourne Airport had 6949 car parking positions at 30 June 2000, 747 more than in the previous period (1998/99).

Passengers using the car parking facilities at Melbourne Airport rated the facility as 'good'. Car parking maintenance and signage was rated similarly.

Kerbside access is required to allow passengers to be dropped off and picked up by taxis, buses and other vehicles. Passengers rated this facility at Melbourne Airport as 'good'.

Consultation with airlines

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

The Commission asked airlines to rate and comment on APAM's performance in addressing airline concerns on quality related issues. The responses ranged from 'poor' to 'excellent', with most airlines recording a 'satisfactory' or 'good' rating. The marginal decline in the rating from last year may reflect several comments received from airlines stating that too much emphasis is being placed on the retailing aspect at Melbourne Airport. However a number of other comments indicated that concerns were addressed by management in a timely manner and with good communication.

ACS rated APAM's responsiveness to concerns as 'poor'. ACS commented that there has been deterioration in Melbourne Airport's performance in this regard. Issues and changes that impact directly on Customs operations are being progressed in a number of instances without any consultation or advice to customs, in particular, with Melbourne Airport's retail arm. ACS point out that the level of interaction and cooperation with Melbourne Airport's other areas is generally good.

2. Regulatory accounts reporting

This section reports on Melbourne Airport's financial accounts. First an outline of the financial reporting requirements is given, followed by the financial accounts of Melbourne Airport for the 1999/00 financial year.

2.1 The Commission's approach

The operators of the Phase 1 airports are required under Part 7 of the Airports Act to provide the Commission with annual financial accounts within 90 days after 30 June of that year. The accounts include a Profit and Loss Statement and Balance Sheet, and a 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 guidelines, the Airport Act, and the regulations made pursuant to that Act.

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

2.2 Melbourne Airport, regulatory accounts 1999/00

APAM reported on a period of activity from 1 July 1999 to 30 June 2000. Over the entire airport, a loss after tax of \$20.3 million was reported. This result was significantly affected by interest expense, which totalled \$107.6 million.

As at 30 June 2000, APAM controlled total assets valued at \$1,334.6 million. Of this total, APAM valued its aeronautical assets at \$434.2 million and its non-aeronautical assets at \$900.2 million.

APAM'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.

Some of the more prominent account items and 'drivers' were as follows. Depreciation was allocated on the basis of the function of the relevant asset. Services and utilities (eg. electricity) were allocated by historical metered usage. Australian Protective Services were allocated on a landed tonne basis. Other expenses were allocated by square metres for functions within the terminal, landed tonnes and by a staff function.

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

3. Price cap compliance

This section details Melbourne Airport's price cap compliance for the 1999/00 financial year.

3.1 The Commission's role – price cap

Certain aeronautical services at leased airports are declared under section 21 of the PS Act for price surveillance. Declaration 87 made by the Treasurer pursuant to the PS Act declares the services at Phase I airports. The Declaration covers aircraft movement areas (eg. runways, aircraft parking areas) and passenger processing areas (eg. aerobridges, departure lounges).²

Declaration requires an airport operator to notify the Commission of a proposal to increase charges for the services covered by the declaration. The legislative framework does not give the Commission the discretion to object to proposed price increases that fall within the parameters set by the price cap.

At all privatised 'core regulated' airports, declared services are subject to CPI-X price caps. The X factors are based on expected productivity improvements.³ The X factor for Melbourne Airport is 4.0 per cent and has been set for five years from 1 July 1997. The Treasurer's Direction number 20 sets out details of the price cap formula, the X values and other issues relevant to the Commission's administration of the cap.⁴

3.2 Price cap compliance 1999/00

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 Melbourne Airport are subject to a price cap set at CPI less an X factor of 4.0 per cent per annum. The relevant CPI figure used to assess price cap compliance for the 1999/00 period was 1.7 per cent, meaning that APAM was required to lower its average aeronautical charges in nominal terms by 2.3 per cent.

Using data provided by APAM, the Commission assessed whether Melbourne Airport complied with the price cap over the year ending 30 June 2000. A summary of movements in charges subject to the cap is provided below (see table 3). Details of price notifications are available from a public register maintained by the Commission pursuant to section 23 of the PS Act.

² A copy of declaration 87 is available on the Commission's website, under airports.

³ For a detailed explanation of the arrangements see Australian Competition and Consumer Commission, "Administration of Airport Price Cap Arrangements", January 1997

⁴ A copy of direction 20 is available on the Commissions website, under airports

Table 3: Changes in charges subject to price cap for year ended 30 June 2000

Charge	Basis	Charges 30/6/99	Charges 30/6/00
Landing charges (domestic and international)	Per landing \$/tonne MTOW	\$5.47	\$5.34
Australian Protective Service	Per landing \$/tonne MTOW (aircraft over 20,000 kg)	\$0.44	\$0.21
International Terminal charge	Per landing \$/tonne MTOW	\$3.89	\$3.80
RPT below minimum rotary wing	\$ per landing	\$13.15	\$13.00
RPT below minimum fixed wing	\$ per landing	\$26.31	\$26.00
GA Itinerants fixed wing	\$ per landing	\$100.00	\$100.00
GA Itinerants rotary wing	\$ per landing	\$50.00	\$50.00
Parking	\$ per day	\$50.00	\$50.00

To demonstrate compliance with the price cap, APAM provided disaggregated revenue data for aeronautical services for the 1999/00 financial year. APAM also gave the units of revenue (eg. tonnes landed) for each category of revenue. A summary of the data is given in Table 4 below.

Table 4: Aeronautical revenue and price cap compliance for the period ended 30 June 2000

Description	Number of Units	Base Charge (Price per unit)	Revenue 99/00 \$51,107,847	Average Charge 99/00	Rate Variation (% change)	Revenue Share 98/99	Compliance %
Landing Charges:							
- Domestic and International	7,767,735 tonnes	\$5.47 per 1000kg MTOW	41,479,705	\$5.34	-2.38	80.81%	-1.92
RPT – below minimum fixed wing	863	\$26.31 per landing	22,438	\$26.00	-1.18	0.06%	-0.0007
RPT – below minimum rotary wing	57	\$13.15 per landing	741	\$13.00	-1.14	0.003%	-0.00003
GA – below minimum fixed wing	613	\$100.00 per landing	61,300	\$100	0.0	0.11%	0.0
GA – below minimum rotary wing	75	\$50.00 per landing	3,750	\$50	0.0	0.014%	0.0
International Terminal Charges	2,510,477	\$3.89 per 1000kg MTOW	9,539,813	\$3.80	-2.31	19.00%	-0.44
Parking Charges	2	\$50 per day	100	\$50	0.0	0.003%	0.0
Actual reduction in charges 99/00							-2.361%
Reduction required to comply with cap*							-2.402%
Over-recovery of revenue							0.041%
Total revenue over-charge 99/00							20 954
Under-recovery of revenue 98/99**							(30 235)
Total to be carried forward (under-recovery)							(9 281)

* Includes CPI-X required reduction for 99/00 of 2.3% and the overcharge from 98/99 of 0.102%.

** This figure has been adjusted from the carry forward figure contained in Melbourne Airport's 1998-99 Regulatory Report .

Based on the above reconciliation, Melbourne Airport reduced charges for the 1999/00 period by 2.36%, against a required reduction of 2.402% to comply with the cap. Taken with the under-recovery of revenue carried forward from 1998/99 of \$30 235, this has led to a total under-recovery of \$9 281 for the 1999/00 period.

APS revenue and expenditure reconciliation for year ended 30 June 2000

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. The Department of Transport and Regional Services has advised the Commission that such costs include amounts charged to the airport by the Australian Protective Service (APS). In future, Government mandated security requirements met by the airport operators and other service providers would also qualify for the cost 'pass-through' arrangements.

APAM supplied the following information, which demonstrates that the increased security charges to airport users did not seek to recover more than the charges levied by APS during the financial year.

Table 5: Reconciliation of APS revenue to APS costs

APS income recharge	\$2,540,000
APS direct expense	\$2,830,000
<i>Sub Total</i>	\$290,000
Carried forward balance 1998	\$231,000
Carried forward total	\$59,000

4. Monitoring of aeronautically related services.

This section covers the Commission's role in the monitoring of aeronautically related services that are outside the price cap arrangements. This section begins with an outline of the Commission's approach to monitoring and is followed by a report on the activities of Melbourne Airport for the 1999/00 financial year.

The Commission also reports on the operational statistics of Melbourne Airport. Details of these statistics can be found in Appendix 6.

4.1 The Commission's monitoring role

In May 1998, the Treasurer directed that aeronautically related services be the subject of formal price monitoring pursuant to section 27A of the PS Act. The monitoring covers the costs, revenues and profits of an airport. The rationale for monitoring is 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.

Aeronautically related services include aircraft refuelling, aircraft maintenance sites and buildings, freight facilities, and car parking. A full list of aeronautically related services is given in the Treasurer's Direction number 21, available on the Commission's web site. For a more complete outline of the Commission's monitoring role, see the Commission publication titled "Economic Regulation of Airports".

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.

4.2 Price monitoring –Melbourne Airport, 1999/00

The purpose of monitoring is to identify changes in aeronautical related costs and revenues over time for services that are associated with significant market power. Such differences may point to the use of market power by the airport operator in setting prices. The movement over time of costs and revenues will be of particular interest to the Commission.

APAM provided data to the Commission for the year ending 30 June 2000. The data is summarised in tables 6, 7 and 8 below, and 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.

Table 6: Monitored services: Aero-related costs for the period ended 30 June 2000

Description	Aero Related Costs 98/99	Aero-Related Costs 99/00
	\$'000	\$'000
AERO-RELATED SERVICES		
Refuelling services	N/A	N/A
Aircraft maintenance sites & buildings	1,567	1,847
Freight equipment storage sites	18	18
Cargo facility sites & buildings	591	1,404
Ground support equipment sites	113	116
Check-in counters and related facilities(1)	1,462	1,440
Public car parking	10,388	9,255
TOTAL AERO-RELATED COSTS	14,139	14,080

Notes:

1. Costs exclude amortisation of intangibles and interest.

Table 7: Monitored services: Aero-related revenue for the period ended 30 June 2000

Description	Basis of Charge(s)	Revenue 98/99	Revenue 99/00
		\$'000	\$'000
AERO-RELATED SERVICES			
Refuelling services		N/A	N/A
Aircraft maintenance sites & buildings	(\$ per square metre)	3,482	3,576
Freight equipment storage sites	(\$ per square metre)	101	101
Cargo facility sites & buildings	(\$ per square metre)	1,352	2,588
Ground support equipment sites		N/A	N/A
Check-in counters and related facilities(1)	Agreement with airlines	2,387	2,560
Public car parking/staff car parks	Time Parking Rates	26,471	28,225
TOTAL AERO-RELATED REVENUE		33,793	37,050

Table 8: Car Parking Rates

Hours	Short Term 30/6/99	Short Term 30/6/00
1	\$4.00	\$4.60
2	\$7.00	\$7.30
3	\$8.00	\$10.00
4	\$9.00	\$10.00
5	\$10.00	\$10.00
6	\$10.00	\$10.00
7	\$13.00	\$13.00
8	\$13.00	\$13.00
9	\$13.00	\$13.00
10	\$16.00	\$16.40
11	\$16.00	\$16.40
12	\$16.00	\$16.40
12-24	\$20.00	\$22.80

Days	Long Term 30/6/99	Long Term 30/6/00
1	\$14.00	\$14.00
2	\$14.00	\$14.00
3	\$21.00	\$21.00
4	\$28.00	\$28.00
5	\$35.00	\$35.00
6	\$42.00	\$42.00
7	\$42.00	\$42.00

While revenues tended to exceed costs, it is important to note that the costs did not include amortisation of intangible assets or interest. These were significant, amounting to \$114 million in 1999/00. 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 acknowledges that an allocation that recognises a cost of capital would be appropriate in any detailed analysis.

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 9 below.

Table 9: Quality of service indicators

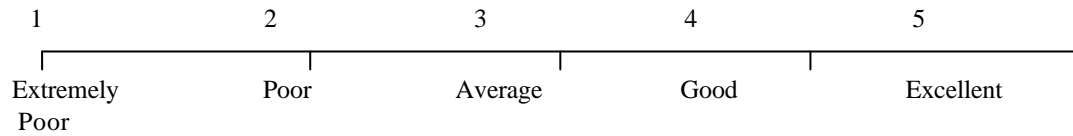
Service / Infrastructure	Type of indicator	Source of data
Runways, aprons, taxiway system	<ul style="list-style-type: none"> • Average aircraft movements in 30/60 busiest half hours per month. • Various delay indicators. • Airlines and Airservices Australia questionnaire regarding adequacy of facilities. 	Airservices Australia; 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
Government inspection	<ul style="list-style-type: none"> • Number of desks. 	
Security	<ul style="list-style-type: none"> • Number of clearance systems. • Satisfaction with the system. 	Airport operator Passenger perception survey
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

Service / Infrastructure	Type of indicator	Source of data
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 perception survey results

APAM commissioned an independent market research company to conduct the passenger perception survey at Melbourne Airport.

Passengers were asked to rate their level of satisfaction with Terminal aspects and facilities at Airport on a scale from one to five:



The graph below shows the average score obtained for each service/facility in the 1998/99 period and the 1999/00 period.

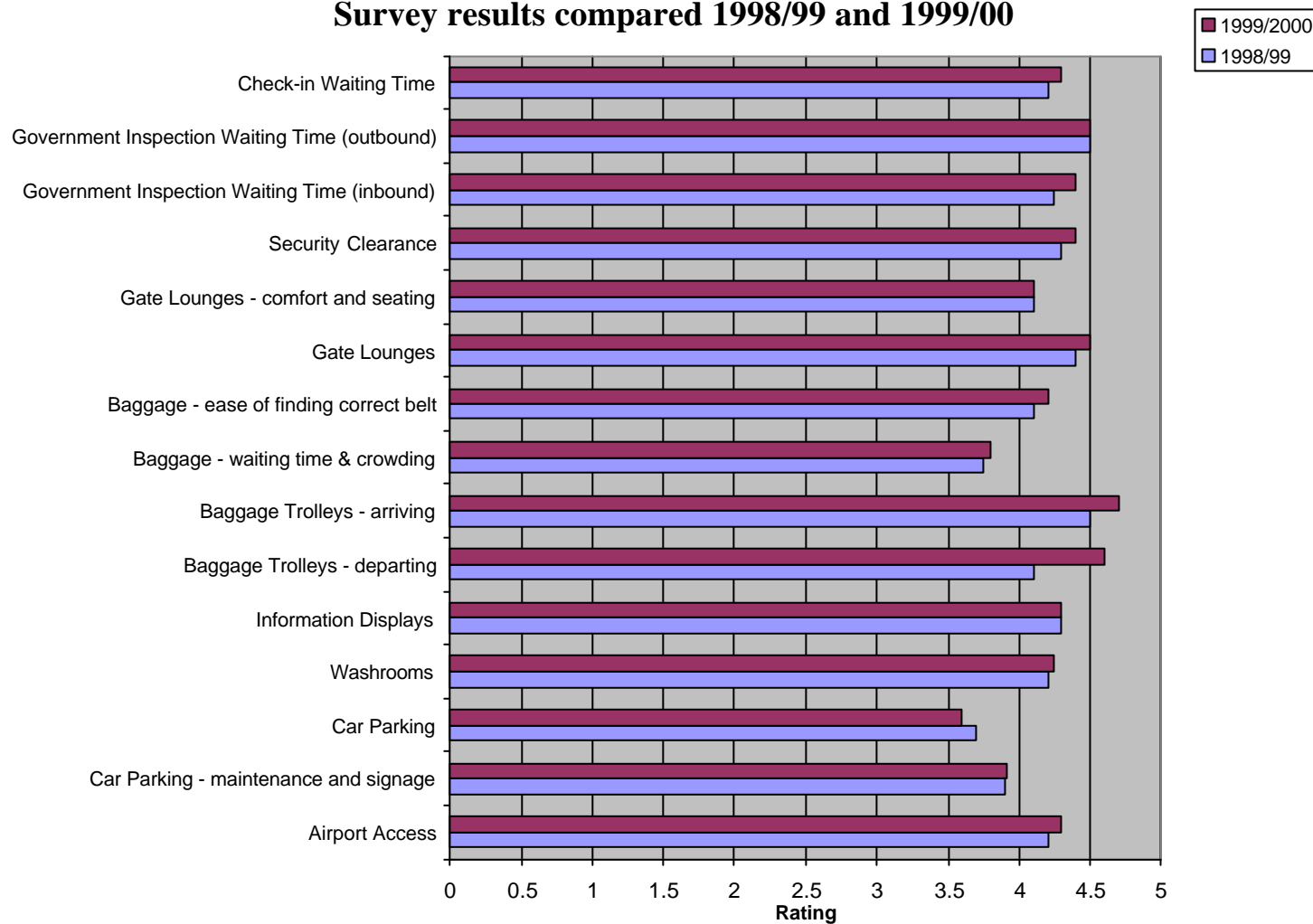
As can be seen from the graph below, the quality of service results over the 1999/00 period are similar to results obtained in the 1998/99 passenger survey. It should, however, be noted that passenger numbers increased at Melbourne Airport by 10% compared with last year's passenger numbers. This would indicate that, even with more passengers using the facilities at Melbourne Airport, quality of service has been maintained for most facilities.

Descriptions of each indicator and the service aspects surveyed are given below in the 'Indicator Summary' table.

A number of facility and service ratings are grouped together and an average rating is provided in the chart. In all instances, the average score, indicated on the above graph, is representative of the individual service/facility ratings that make up the group

Table 10: Indicator summary

- *Check in waiting time* refers to passenger satisfaction with the waiting time during check-in for departing passengers.
- *Government inspection waiting time (inbound)* refers to passenger satisfaction with the waiting time at customs/immigration for departing passengers for arriving passengers.
- *Government inspection waiting time (outbound)* refers to the passenger satisfaction with waiting time at passport control for departing passengers.
- *Security clearance* refers to the perceived quality of the security system.
- The *gate lounge* measure refers to an average figure combining the crowding at the gate lounges, the ease of finding a seat in the gate lounge and ease of finding a seat.
- The *gate lounge – comfort and seating* measure refers to passenger satisfaction with this aspect of the service.
- The *baggage – ease of finding correct belt* refers to passenger satisfaction with this facility.
- *Baggage – crowding and waiting time* refers to passenger satisfaction with the waiting time for baggage and the congestion of the baggage reclaim.
- *Baggage trolley - arriving* refers to arriving passenger perceptions of the ease of finding a trolley.
- *Baggage trolley – departing* refers to the satisfaction of departing passengers in finding a trolley.
- The *information display* measure covers passenger satisfaction with the flight information system for departing passengers.
- The *washroom* measure covers the cleanliness of washrooms for both arriving and departing passengers.
- *Car parking* covers to the ease of access and availability of spaces in the car park, including both the long-term and short term car parks.
- *Car parking maintenance and signs* refers to passenger satisfaction with the signs directing passengers to the car park and signs within the car park, as well as maintenance of the car park facilities.
- *Airport access* refers to passenger satisfaction with the ease of being dropped off at the kerbside. Only departing passengers were surveyed.

Survey results compared 1998/99 and 1999/00

Appendix 3: Airline survey results

The Commission received surveys from eleven airlines that used Melbourne Airport over the 1999/00 year. These airlines were Air Nauru, Air New Zealand, Air Pacific, Ansett Australia, Cathay Pacific, Gulf Air, Lauda Air, Malaysia Airlines, Qantas, Singapore Airlines, and United Airlines. 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, its reliability, and the possibility of breakdown.

Overall, the results of the airline surveys showed a decline in the ratings across many of the facilities provided at Melbourne Airport. A summary of the ratings provided by the airlines is given in the table below. Ratings were generally 'satisfactory' to 'good' compared with ratings of 'good' to 'excellent' in 1998/99.

Table 11: Responses from airline surveys

Facility	Aspect	Very Poor	Poor	Satisfactory	Good	Excellent
Runways	Availability			2	8	1
	Standard			2	7	2
Aprons	Availability			2	8	1
	Standard			4	6	1
Taxiways	Availability			2	7	1
	Standard			3	6	1
Gates	Availability		1	4	5	1
	Standard			7	4	
Aerobridges	Availability		2	3	5	1
	Standard		2	6	2	1
Ground service equipment storage	Availability		2	3	3	
	Standard		2	3	3	
Freight equipment storage	Availability		2	3	2	
	Standard	1	2	2	2	
Check in facilities	Availability		1	3	2	5
	Standard		2	3	4	2
Baggage processing	Availability	1		7	3	
	Standard	1	3	5	2	
Airline concerns			1	4	5	1

Appendix 4: Static indicators

Indicators provided by the airport operator	At 30 June 1999	At 30 June 2000
Number of (international) aircraft parking bays at 30 June 1998	14	15
Number of aerobridges at 30 June 1998	10	10
Percentage of passengers (embarking) using an aerobridge	99.9%	99.3 %
Percentage of passengers (disembarking) using an aerobridge	99.9%	99.4%
Number of check-in desks – managed by APAM	72	72
Number of baggage inspection desks	16	16
Number of inbound immigration desks	26	26
Number of outbound immigration desks	18	18
Number of security clearance systems	6	6
Number of seats in gate lounges	2363	2172
Capacity of outbound baggage handling equipment (bags per hour)	3060	3060
Capacity of inbound baggage reclaim system (bags per hour)	2720	2720
Number of car park spaces – Long term	3439	4189
- Short term	2763	2760
Throughput of the car park per day – Long term	679	731
- Short term	6 775	6996

Provided by Airservices Australia

1998-99

- Aircraft movements in busiest 30 half hours: Annual average 23
- Aircraft movement in busiest 60 half hours: Annual average 21

1999-00

- Aircraft movements in busiest 30 half hours: Annual average 21
- Aircraft movement in busiest 60 half hours: Annual average 20

Appendix 5: Melbourne Airport regulatory accounts (summary)

Profit and loss account for the period ended 30 June 2000⁵

Description	Audited financial statements \$000	Aero services \$000	Non-Aero services \$000
<i>Description</i>	1999/00	1999/00	1999/00
Revenue			
Aeronautical revenue	55,160	55,160	
Non-Aeronautical revenue	111,823		111,823
Grazing and tenant revenue	109		
Interest Income	148		
Total Revenue	167,240	55,160	111,823
Expenditure			
Salaries and wages	14,634	9,787	4,847
Depreciation	26,309	14,465	11,844
Amortisation	6,907	---	6,907
Services and utilities	14,756	5,783	8,973
Property maintenance	4,573	3,000	1,573
Maintenance add backs	---	(109)	---
Australian Protective Service costs	2,830	2,830	---
Other costs	9,984	3,521	6,463
Total Expenditure	79,993	39,277	40,607
Operating Profit/(Loss)	87,247	15,883	71,216
<i>Abnormal items</i>			
Earnings Before Interest and Tax (EBIT)	87,247	15,883	71,216
Interest Expense	107,580		
Loss Before Tax	(20,333)		
Tax benefit attributable to loss	43		
Loss after Tax	(20,290)		
Dividends Paid	---		
Retained Earnings	(20,290)		

* Note: costs do not include amortisation of intangible assets or interest.

⁵ 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.

Profit and loss account for the period ended 30 June 1999⁶

Description	Audited financial statements	Aero services	Non-Aero services
<i>Description</i>	<i>\$ '000</i>	<i>\$</i>	<i>\$</i>
Revenue			
Aeronautical revenue	52,511	52,511	
Non-Aeronautical revenue	100,496		100,496
Grazing and tenant revenue	132		
Interest Income	251		
Total Revenue	153,390	52,511	100,496
Expenditure			
Salaries and wages	13,861	9,746	4,115
Depreciation	24,393	14,856	9,537
Amortisation	6,935		6,935
Services and utilities	13,200	4,767	8,433
Property maintenance	4,213	2,900	1,313
Maintenance add backs	---	(132)	---
Australian Protective Service costs	2,920	2,920	---
Other costs	12,118	4,653	7,465
Total Expenditure	77,640	39,710	37,798
Operating Profit/(Loss)	75,750	12,801	62,698
<i>Abnormal items</i>			
Earnings Before Interest and Tax (EBIT)	75,750	12,801	62,698
Interest Expense	105,182		
Loss Before Tax	(29,432)		
Tax benefit attributable to loss	0		
Loss after Tax	(29,432)		
Dividends Paid	---		
Retained Earnings	---		

* Note: costs do not include amortisation of intangible assets or interest

⁶ 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.

Balance sheet for the period ended 30 June 2000

Description	Audited financial statements \$'000	Aero services 1999/00	Non-Aero services \$'000 1999/00
CURRENT ASSETS	1999/00	1999/00	1999/00
Cash	165		
Receivables	10,771	4,642	6,129
Inventories	668	521	147
Accrued revenue	80	54	26
Other			
Total current assets	11,684	5,217	6,302
NON-CURRENT ASSETS			
Property, plant and equipment	723,487	429,009	294,478
Intangibles	599,420		599,420
Total non-current assets	1,332,907	429,009	893,898
TOTAL ASSETS	1,334,591	434,226	900,200
CURRENT LIABILITIES			
Creditors	12,200		
Borrowings	20,231		
Provisions	3,619	2,425	1,194
Total current liabilities	36,050		
NON-CURRENT LIABILITIES			
Borrowings	1,277,573		
Provisions	270	181	89
Total non-current liabilities	1,277,843		
TOTAL LIABILITIES	1,313,893		
	20,698		
SHAREHOLDER'S EQUITY			
Share capital	100,000		
Accumulated profits/(losses)	(79,302)		
TOTAL SHAREHOLDER'S EQUITY	20,698		
Accumulated profit/loss at start of year	(59,012)		
Profit/loss for the year	(20,290)		
Accumulated profit/loss at end of year	(79,302)		

Balance sheet for the period ended 30 June 1999

Description	Audited financial statements	Aero services	Non-Aero services
	\$'000	\$'000	\$'000
CURRENT ASSETS			
Cash	34		
Receivables	8,497	4,688	3,809
Inventories	756	590	166
Accrued revenue	460	146	314
Other			
Total current assets	9,747	5,424	4,289
NON-CURRENT ASSETS			
Property, plant and equipment	687,461	444,512	242,949
Intangibles	647,865		647,865
Total non-current assets	1,335,326	444,512	890,814
TOTAL ASSETS	1,345,073	449,936	895,103
CURRENT LIABILITIES			
Creditors	7,204		
Borrowings	8,702		
Provisions	3,285	2,299	986
Total current liabilities	19,191		
NON-CURRENT LIABILITIES			
Borrowings	1,284,569		
Provisions	325	228	97
Total non-current liabilities	1,284,894		
TOTAL LIABILITIES	1,304,085		
NET ASSETS/(LIABILITIES)	40,988		
SHAREHOLDER'S EQUITY			
Share capital	100,000		
Accumulated profits/(losses)	(59,012)		
TOTAL SHAREHOLDER'S EQUITY	40,988		
Accumulated profit/loss as start of year	(29,580)		
Profit/loss for the year	(29,432)		
Accumulated profit/loss at end of year	(59,012)		

Statement of cash flows for the period ended 30 June 2000

Description	Audited Financial Accounts 1999 ‘000	Audited Financial Accounts 2000 ‘000
Cash flows from operating activities		
Receipts from customers	153,265	164,749
Payments to suppliers and employees	(49,377)	(45,164)
Interest and bill discounts received	251	147
Interest and other costs of finance paid	(86,393)	(95,873)
<i>Net cash provided by operating activities</i>	17,746	23,859
Cash flows from investing activities		
Payment for property, plant and equipment	(18,071)	(16,488)
Proceeds from sale of property, plant and equipment	551	113
<i>Net cash used in investing activities</i>	(17,520)	(16,375)
Cash flows from financing activities		
Proceeds from borrowings	1,026,496	103,000
Loan funds repaid to entities in wholly owned group	(984,271)	(1,996)
Repayment of borrowings	(40,000)	(111,000)
<i>Net cash (used in)/provided by financing activities</i>	2,225	(9,996)
Net (decrease)/increase in cash held	2,451	(2,512)
Cash at the beginning of the financial year	(2,598)	(147)
Cash at the end of the financial year	(147)	(2,659)

Australia Pacific Airports (Melbourne) Regulatory Accounts

Summary of accounting policies

Financial Reporting Framework

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Law, applicable Accounting Standards and Urgent Issues Group Consensus Views, and complies with other requirements of the law.

The financial report has been prepared on the basis of historical and except where stated, does not take into account changing money values or current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

Going Concern

The financial statements have been prepared on a going concern basis which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. The Directors believe that the company is a going concern based on future positive operating cash flows and financing facilities available. Should the company be required to realise its assets and extinguish its liabilities other than in the normal course of trading, such assets may realise amounts different from those stated in the financial report.

Significant Accounting Policies

Accounting policies are selected and applied in a manner, which ensures that the resultant financial information satisfies the concepts of relevance and reliability, thereby, ensuring that the substance of the underlying transactions and other events is reported.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) Depreciation

Depreciation is provided on property, including buildings, plant and equipment, roads, runways and other infrastructure. Depreciation is calculated on a straight-line basis so as to write off the net cost of each asset over its expected useful life. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight-line method.

The following estimated useful lives are used in the calculation of depreciation:

- | | |
|---|-------------|
| • Buildings | 10-40 years |
| • Roads, Runways and Other Infrastructure | 13-80 years |
| • Plant and Equipment | 3- 10 years |

(b) Lease Land and Lease Premium Amortisation

Land leased as part of the airport acquisition has been valued at acquisition at fair value and the cost of acquisition of the airport business in excess of net tangible assets has been capitalised as lease premium.

The Leased land and Leased premium are amortised on a straight line basis over the period of the lease, which is 99 years.

(c) *Acquisition of assets*

Assets acquired are recorded at the cost of acquisition, being the purchase consideration determined as at the date of acquisition plus costs incidental to the acquisition.

(d) *Capitalisation of Interest*

Interest costs directly attributable to finance assets under construction are capitalised up to the date of completion of each asset.

(e) *Derivative Financial Instruments*

The company has entered into interest rate swaps. The swaps have been allocated against the underlying debt instrument and to this extent modify the interest rate risk of underlying debt. Further details of derivative financial instruments are disclosed in note 25 to the financial statements.

(f) *Inventories and Supplies*

Inventories are valued at the lower of cost and net realisable value.

(g) *Receivables*

Trade receivables are recorded at amounts due less any provision for doubtful debts.

(h) *Recoverable Amount of Non-Current Assets*

Non-current assets are written down to recoverable amount where the carrying value of any non-current assets exceeds recoverable amount. In determining the recoverable amount of non-current assets, the expected net cash flows have not been discounted to their present value.

(i) *Accounts Payable*

Trade payables and other accounts payable are recognised when the company becomes obliged to make future payments resulting from the purchase of goods and services.

(j) *Borrowings*

Bank loans and other loans are recorded at an amount equal to the net proceeds received. Interest expense is recognised on an accrual basis. All fees and costs incurred by the company in establishing the funding facilities for the acquisition of Airport have been capitalised and will be amortised on a straight-line basis over the term of the facilities.

(k) *Comparative Figures*

Comparative figures are, where appropriate, reclassified so as to be comparable with the figures presented for the current financial year.

(l) *Income Tax*

Tax effect accounting principles have been adopted whereby income tax expense has been calculated on pre-tax accounting profits after adjustment for permanent differences. The tax effect of timing differences, which occur when items are included or allowed for income tax purposes in a period different to that for accounting, is shown at current taxation rates in provision for deferred income tax and future income tax benefit, as applicable.

The future income tax benefit relating to income tax losses has not been recognised as an asset in the financial statements, as the Directors are not "virtually certain" that these losses will be recovered.

(m) Employee Entitlements

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, other leave and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provision made in respect of wages and salaries, annual leave, long service leave, sick leave, and other employee entitlements expected to be settled within 12 months, are measured at their nominal values.

Provisions made in respect of other employee entitlements which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the company in respect of services provided by employees up to the reporting date.

(n) Revenue Recognition

Rental Revenue

Revenue from a lease or use of physical assets owned by the economic entity is recognised as the property or asset is used by the customer.

Service Revenue

Revenue from services provided is recognised when the service is provided or when the service is consumed by the customer.

Goods Revenue

Revenue from the supply of goods is recognised when the goods are delivered to the customer.

(o) Revisionary Assets

Any assets that have reverted back to the company have been recognised as an asset by a transfer of value from lease premium. The value of the transfer was the value of that asset at the date of acquisition of the airport.

Appendix 6: Operations statistics

Operational statistics for the period ended 30 June 2000

Description	Number	Number
	1998/99	1999/00
PASSENGERS		
Domestic Passengers	11,568,545	12,266,238
International Passengers (excluding transit)	2,725,843	2,988,855
International Transit Passengers	213,351	238,145
Domestic On-Carriage	75,607	77,536
TOTAL PASSENGERS	14,583,346	15,570,774
AIRCRAFT MOVEMENTS		
Regular Public Transport Aircraft Movements	154,332	163,118
General Aviation Aircraft Movements	2,470	1,558
TOTAL AIRCRAFT MOVEMENTS	156,802	164,676
TOTAL TONNES LANDED	7,262,427	7,775,976
AVERAGE STAFF EQUIVALENTS		
- Aeronautical Services	131	137
- Non-Aeronautical Services	56	51
TOTAL AVERAGE STAFF EQUIVALENTS	187	188
AREA (HECTARES)		
- Aeronautical Services	1,742.76	1,742.76
- Non-Aeronautical Services	624.54	624.54
TOTAL AREA (HECTARES)	2,367.30	2,367.30