

Mr. Paul Logan
Airservices Australia
25 Constitution Avenue
CANBERRA ACT 2600

REPORT & VALUATION

**A REVIEW OF THE EFFECT OF
OPTIMISED REPLACEMENT COST,
TOTAL AND REMAINING ECONOMIC LIVES ON
DEPRECIATED REPLACEMENT COST AND
ECONOMIC VALUES OF
AIRWAYS FACILITIES EQUIPMENT**

DECEMBER 2003

AIRSERVICES AUSTRALIA

Objective

This valuation and review of Airservices non-current asset base has been undertaken to assist ASA with a five year pricing arrangement and is to be utilised in submission material to the ACCC and Aviation Industry representatives.

Methodology

Valuation data is presented on an excel spreadsheet formatted from Airservices SAP Fixed Asset Register, (FAR). Various classes in the fixed asset register have been previously updated and reviewed with the assistance of ASA technical staff on an annual basis by the valuer involved in this current assignment. The register has been well maintained and was reviewed by Airservices Accounting and Technical personnel prior to being uploaded into SAP in 2002. In our opinion it is an appropriate register for use in this assignment.

Given this history, an existing *Insurable Replacement Cost field* has been adopted as the basis of determining Optimised Replacement Cost. The replacement cost field was created by ASA to establish a review base for Insurance purposes. It has been populated over the past 3-4 years. The data is generally reliable but has been reviewed by us as part of this valuation exercise. The replacement cost data has been estimated from a combination of indexation of historic replacement cost and comparative reviews against similar types of equipment with a known cost basis.

Specifically, assets with a historic/Insurable Replacement Cost of \$80K plus have been reviewed individually. Where certain classes have a low average replacement cost they have been treated as a subgroup of assets (eg infrastructure classes and test measurement equipment) and valued as a group.

The corporate total economic lives have broadly been adopted. Remaining economic lives have been reviewed to reflect the remaining economic benefit embodied in the asset and the planned capital expenditure program. The total economic life of each asset class has been reviewed by ASA on a regular basis.

Assets showing a fully written down C.B.V. have been assessed and revalued with a nominal value. The reasoning behind this is that the on going maintenance program is supporting the equipment to extend the total economic life and therefore the assets worth. The revaluing of these assets and the resulting depreciation change will minimise the saw tooth effect of nil depreciation of fully depreciated assets followed by recommencement of depreciation of newly capitalized assets.

The original cost information field in the asset register is not reliable and has not been included in this report. The legacy asset register maintained by Airservices required any previous revaluations to adjust the original cost field to book the revaluation. With the implementation of the new SAP asset register, this will no longer be a problem as acquisition costs, or the value first loaded into SAP and revaluation adjustments are separately identified.

Assessment of Optimised Replacement Cost

Elements considered when optimising equipment include:-

- The functional design parameters
- Safety standard compliance
- Cost
- Technological/Economic Life
- Operational and maintenance cost considerations
- Flexibility of design of buildings

These considerations provide a challenging basis for valuing Airservices Australia's assets, with international compliance standards regulating the functionality and standards of equipment in the field. In addition, due to the unique nature of the plant and equipment, there are limited prime contractors in the market place (eg. manufacturers of equipment such as approach and enroute radar systems, satellite bearer equipment and high end radio communications equipment).

All the assets that we have investigated appear to have been undertaken with a reasonable and efficient design execution. There is evidence however, that the international design parameters with respect to safety have and will lead to a higher bench marking of design and cost standards compared to other organisations' infrastructure and technical applications. This is particularly noticeable in the case of fire fighting appliances, navigational aids and enroute and approach radar systems.

Similarly, the selection of contract partners for capital projects requires consideration of the above optimising elements. There is no evidence in current ASA capital programs of iconic design statements or excess with respect to property design or configuration. The prime contractors that ASA have selected for capital works are fully conversant with these design considerations and build to the relevant cost and technological design platform.

On the opposite hand an over zealous approach to optimising can prove costly with respect to unprogrammed maintenance of plant, longevity of equipment and lack of flexibility in design. It is apparent from our assessment and interviews that ASA engineers are acutely aware of these pitfalls when considering design.

Assets have been reviewed with the assistance of the technical staff of Airservices Australia with respect to the required technology, quantity of facilities and the replacement cost of plant and property. Classes of assets where there is imminent capital expenditure, and firm optimised replacement costs available from external suppliers, have been reviewed to reflect this current information. A factor has been added to account for any Airservices Australia installation and commissioning costs in addition to the manufacturers quoted costs where this is applicable.

A small number of facilities, as in the case of HF radio where a reduction of sites of 60% is planned, will reduce the overall replacement costs and maintenance budgets. Replacement costs per unit are generally not expected to reduce, but because of fewer units overall system costs will reduce. However, the relatively lower complexity and enhanced reliability of current equipment will contribute to optimising . The process of optimising in planning and design for future capital expenditure appears to be appropriately considered by ASA technical staff.

Depreciated Optimized Replacement Cost

As previously stated the D.O.R.C. calculation is a product of ORC total and economic remaining lives. Airservices Australia technical personnel have reviewed the remaining economic lives of assets over the past eighteen months. During this assignment the data relating to R.E.L. was revisited by Hymans in consultation with Airservices Australia personnel. Where assets are fully depreciated we have determined an appropriate remaining life with reference to the Capital expenditure program and consultation with ASA technical staff.

Observations

The DORC shows an increase over CBWDV of \$41,670,970. The major contributing factor of this increase is the revaluation of assets with a zero CBWDV and adjustments to the ORC and subsequent flow through increase in DORC of classes of assets including control towers and fire stations and trucks.

Approximately 14,000 assets are currently showing zero C.B.W.D.V. that is about 70% of 20,000 assets reviewed.

The revaluation of fully written down assets has been addressed by this review.

We observe that currently only major upgrades to plant and property are capitalised and that minor works and improvements (less than \$10,000) are expensed. Consideration should be given to determine whether minor life extending works in nature should be capitalized.

As stated there are a relatively high number of fully written down assets in the fixed asset register. This review has addressed these items by revaluation via reconsideration of the remaining economic lives of the assets. The reassessment of lives is supported by capital expenditure and to a lesser degree by programmed maintenance. The overall effect of the revaluation is to implement the ongoing requirement for a sustainable operation with the corresponding impact of stabilizing the depreciation charges.

This general statement relates to each class.

Sighting of Plant and Property

Plant - This valuation assignment was undertaken with a tight predetermined time frame. It was not possible to undertake a site and equipment familiarisation program. However, the valuers involved have visited various metropolitan and country sites of Airservices over the past 10 years and have sighted first hand virtually all aspects of equipment under review in this valuation.

During previous valuation assignments including all submissions, general annual and statutory valuations, valuers have collated general and specific costing and valuation data related to all classes of airways facilities equipment.

In undertaking an optimised review we have been able to compare the various optimising criteria proposed against historic data previously collated.

Whilst certain classes of Plant and property can be measured or bench marked against standards the majority of assets have unique or specific ASA design and installation attributes. These are a challenge for the valuer to determine suitable comparable data and historic cost data. Airservices capital expenditure programs, primary and secondary contractors have all been involved in cost data review.

Prior to approaching external contractors and suppliers it is necessary to obtain specification from Airservices sources. Access to suppliers must invariably be made through Airservices Australia personnel. We have followed this routine, the limited number of suppliers and or Airservices personnel have been co-operative with respect to verbal commentary on costs.

Property – A sample of property freehold sites have been valued. Each site has been personally inspected by an Australian Property Institute Registered Valuer. Individual Fair Value Property Reports accompany this valuation report.

Commentary Relating to Valuation Criteria for each class

Note: The variations being considered are those between DORC and Corporate Book Written Down value unless stated otherwise. Referred to as Adjusted Written Down Value, AWDV.

Qualifications

Exchange rate utilized in this valuation is A\$.68US

This assignment has been undertaken with the acknowledged cooperation of Airservices Australia corporate accounting and technical officers. We have endeavored to maintain a neutral interpretation of information received.

Findings

Summary of variations to cost and values is as follows: -

Replacement Costs

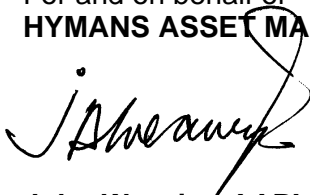
Hymans Optimised Replacement Cost 2003	ASA Insurable Value 2002	Variation
\$ 1,141,516,000	\$ 1,073,326,000	\$ 68,190,000

Note: above does not include land.

Depreciated Costs

Hymans Depreciated Optimised Replacement Costs 2003	ASA Corporate Book Written Down Value Sep 2003	Variation
\$337,952,432	\$ 296,281,462	\$41,670,970

For and on behalf of
HYMANS ASSET MANAGEMENT



John Weaving AAPI (P&M) ASA
Senior Valuer
Certified Practising Valuer

Russell Butler AAPI MAVA
Certified Practising Valuer
Group General Manager

Valuation Proforma and Qualification follow.

SUMMARY OF VALUES

For Airways facilities equipment as listed in document xls.draftcompleteairservfile.

Optimised Replacement Cost \$ 1,141,516,000

Depreciated Optimised Replacement Cost \$ 337,952,000

Freehold land, 33 sites, Fair Value in terms of AASB1041 \$ 16,625,000
including selected Freehold land.

This valuation has been prepared on the basis that full disclosure of all information and facts, which may affect the valuation, has been made to us. We do not accept any liability or responsibility whatsoever for the valuation if full disclosure has not been made. Furthermore, we do not accept responsibility for any consequential error or defect in the valuation, which has resulted from any error, omission, or inaccuracy in date or information supplied by the client or its officers and agents.

This valuation is solely for the use of the party by whom we were instructed and for no other purpose. We do not owe a duty of care to any third party who becomes aware of this valuation and with or without our knowledge, chooses to act or rely on the whole or any part of it.

Neither the whole nor any part of this valuation nor any reference thereto may be included in any document, circular or statement without our approval of the form and context in which it will appear.

The values expressed in this report are valid for a period of six (6) months from the date of valuation.

For and on behalf of
HYMANS ASSET MANAGEMENT



John Weaving AAPI (P&M) ASA
Senior Valuer
Certified Practising Valuer

Russell Butler AAPI MAVA
Certified Practising Valuer
Group General Manager

REPORT AND QUALIFICATIONS

Basis Of Valuation

As instructed, by Paul Logan, the representative of this company has conducted a valuation of the assets detailed herein in accordance with your requirements. The basis of valuation is fair market value compliant with AASB1041. Date of valuation is to be 30 September 2003.

Purpose

This assignment has been undertaken on behalf of Air Services Australia to determine fair market value of selected airways facilities plant, equipment and property.

Definitions

The values attributed to assets in this report have been assessed in accordance with the following definitions:

Fair Value

“Fair Value” is defined in paragraph 9.1 of Australian Accounting Standards AASB 1041 as: *“the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.”*

Underlying this definition of Fair Value is the assumption that the entity is a going concern, without any intention or need to liquidate or otherwise wind up its operations, or undertake a transaction on adverse terms. Similarly in determining the Fair Value of an asset it is assumed that the asset is exchanged after an adequate period of marketing to obtain its best price. An asset’s Fair Value is measured having regard to the highest and best use of the asset for which market participants would be prepared to pay.

Optimised Replacement Cost

Assets have been reviewed with reference to the following optimising criteria; -

- Functional Design Parameter
- Safety Standard Compliance
- Cost
- Technological and Economic Life Factors
- Operational and Maintenance Cost Considerations
- Building Design Consideration
- ASA Engineering and project Management Costs

The review was undertaken with the assistance of ASA Airways facilities technical personnel.

Depreciated Optimised Replacement Cost

By utilising the optimised replacement cost, total and remaining economic lives and prime cost depreciation bases a depreciated optimised replacement cost and a depreciated optimised replacement cost, has been calculated. This calculation allows an annual depreciation amount to be determined for each asset or class of assets.

Methodology

This assessment has been undertaken utilising material supplied by Air Services Australia. In the form of excel based Asset Listings namely "Assets for Revaluation 2003" (some 20,000 line items).

This assignment has been undertaken following a recent valuation appraisal undertaken for Air Services Australia for inclusion in a submission to the ACCC in May 2003. Research data and findings from this assignment have been further researched for use in this current assessment.

Issues relating to specialised assets in each category with respect to optimised replacement cost, revised total economic lives, revised remaining life and technological compliance have been researched with relative senior Air Services Australia technical staff and external suppliers and manufacturers of equipment where available.

EXCLUSIONS

Excluded are all items of plant, machinery, equipment, loose tools, furniture and any other similar items, which may have been installed or are used, wholly or primarily in connection with airway facilities equipment, certain shelters are included in these exclusions.

DECLARATION

The Valuer declares that he is registered in the relative states to value all types of real property and has no pecuniary interest past, present or prospective in the subject property and his valuation is free of any bias.

METHODOLOGY 1

For special use site we have adopted the Depreciated Replacement Cost valuation approach.

This approach involves assessing the Replacement Cost New of the Improvements and then depreciating that amount recognising the age, condition, and functionality of design. Added to that amount is our assessment of land value for the particular site. Adding these two calculations arrives at our assessment of Fair Value.

MEHTODOLOGY 2

For residences we have adopted a direct market value comparison approach as defined by AASB1041.

Assets have been assessed with reference to their existing zoning specification.

DISCLAIMER AND QUALIFICATIONS

In reaching our opinion, we have utilised certain historical facts and relevant market data, available up to the date of our valuation. Our instructions did not require us to consider the effect of gains or losses, which may arise as a result of the future fluctuations in the Property market. We therefore do not accept responsibility whatsoever for losses caused by such fluctuations.

This valuation is current as at the date of valuation only. The value assessed herein may change significantly and unexpectedly over a relatively short period (including as a result of general market movements or factors specific to the particular property). We do not accept liability for losses arising from such subsequent changes in value. Without limiting the generality of the above comment, we do not assume any responsibility or accept any liability where this valuation is relied upon after the expiration of 3 months from the date of the valuation, or such earlier date if you become aware of any factors that have any effect on the valuation.

Our estimate of the building areas have been prepared from measurements taken on site. Should a survey of the subject properties improvements prepared in accordance with the Property Council of Australia Method of Measurement reveal an area that materially differs from those as stated, then we reserve the right to review our valuation.

Neither this company nor any of its staff have any interest in the property the subject of this valuation.

We advise that any copies of this report that have been transmitted electronically should be considered draft reports only. We do not guarantee the authenticity or accuracy of electronic versions of this report as files may be subject to manipulation or corruption, which is out of our control. The signed original copy provided should be considered as the one and only source of reference for this report.

Neither the whole, nor any part of this report, or any reference thereto may be made in any document, circular or statement without our approval of the form and context in which it will appear. Unless otherwise reported, we have assumed that for all items listed herein that are required by law to be licensed, registered or possess operating permits comply to the appropriate current government regulations and/or standards. We have made no attempt to confirm this assumption and stress that if any information affective to the above is found, the reported values will require review.

- Exchange rate utilized is US 0.68 per A\$1.
- The Valuers who have undertaken this assignment are:-

Mr Ashley Grant	MAVA
Nicholas Brady	AAPI
John Purcell	FAPI
John Weaving	AAPI (P&E) ASA

For detail relating to freehold land property report qualifications refer to each individual property report attached.