Australian
Competition &
Consumer
Commission

Quality of service monitoring and financial accounts reporting—non-price-monitored airports

2002–03

March 2004

Contents

Introduction

This report presents results of the Australian Competition and Consumer Commission's quality of service monitoring for Alice Springs, Gold Coast, Hobart, Launceston and Townsville airports for the 2002–03 financial year. It also presents financial accounts from these five airports. Unlike the largest Australian airports, these five airports are **not** subject to price monitoring under Part VIIA of the *Trade Practices Act 1974.*

The ACCC has been reporting on quality of service, prices and financial statements of airports since 1997. However, this report reflects recent changes to the regulation of airports:

- Until 2001–02 five separate reports were published—one each for Sydney, Brisbane, Melbourne and Perth airports, as well as a single report for Adelaide, Alice Springs, Canberra, Darwin, Gold Coast, Hobart, Launceston and Townsville airports. Each report covered quality of service, regulatory accounts reporting and price cap compliance and price monitoring outcomes.[1]
- For the 2002–03 financial year the report format has changed. This report contains quality of service and financial accounts reporting results for Alice Springs, Gold Coast, Hobart, Launceston and Townsville airports. These airports are the five 'core regulated' airports that are not subject to price monitoring. Reporting on the seven price monitored airports—Sydney, Brisbane, Melbourne, Perth, Adelaide, Canberra and Darwin—is contained in two separate reports—one dealing with price monitoring and financial reporting[2] and one dealing with quality monitoring.[3] Because the airports examined in this report are not subject to price monitoring, this report by necessity has a different focus to the other two reports.

The report begins with an overview of the ACCC's approach to quality monitoring and financial accounts reporting. It then presents results for each individual airport.

This report is for information only and does not provide recommendations about the matters covered.

It should be noted that the Department of Transport and Regional Services is currently conducting a review of Parts 7 and 8 of the *Airports Act 1996*, which are the relevant Parts for this report.

1 For example, ACCC, *Regulatory report: Sydney airport 2001–02*, January 2003.

2 ACCC, *Airport price monitoring and financial reporting 2002–03*, February 2004.

3 ACCC, *Quality of service—price-monitored airports 2002–03*, November 2003.

ACCC approach to quality of service monitoring

Regulatory framework

Part 8 of the Airports Act assigns to the ACCC the function of monitoring and evaluating the quality of airport services and facilities. The *Airports Regulations 1997* set out the performance indicators to be used in evaluating quality of service.

The indicators are of two broad types:

- objective or 'static' measures of the availability of certain airport facilities
- satisfaction ratings dealing with the availability and standard of airport facilities, obtained from airport user surveys.

The ACCC's approach

In April 2003 the ACCC issued its *Guidelines for quality of service monitoring at airports*, which set out the objectives of, and approach to, quality of service reporting. The guidelines state that in performing quality of service reporting on airports generally, the ACCC aims to:

- assist in the assessment of an airport operator's conduct in a prices monitoring environment (in light of the independent review which will be undertaken at the end of the five years of the monitoring arrangements) and
- improve the transparency of airport performance in order to:
  - discourage airport operators from providing unsatisfactory standards for services which are associated with significant market power
  - provide information to users of airport facilities, including passengers and the aviation industry, as a basis for improved consultation and negotiation on pricing and investment proposals
  - highlight changes in service quality over time
  - facilitate inter-airport comparisons and benchmarking and
  - assist the government in addressing other public interest matters.[4]

However, certain of these goals are less relevant to the non-price-monitored airports examined in this report.

The ACCC only monitors the quality of airport services that are operated by, or can be significantly influenced by, the airport operator. Therefore, where the airport operator leases out terminals or certain facilities to airlines, these facilities are not examined in the quality monitoring in this report.

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[4] ACCC, *Guidelines for quality of service monitoring at airports*, April 2003, p. 11.

Information for this report came from three sources:

- airlines
- Australian Customs Service (ACS)
- the airport operators themselves.

The airports, airlines and ACS all supplied their information using new electronic templates for the first time, providing a consistent format for the data.

Airlines

Airlines were surveyed about their level of satisfaction with the airport facilities, which fell into three main categories:

- airside facilities—runways, taxiways, aprons, aircraft gates, ground service equipment storage sites
- terminal facilities—aerobridges, check-in, baggage handling
- management—management systems for dealing with quality of service issues.

Airlines were asked to rate two aspects of the facilities:

- availability—the availability of infrastructure and equipment, and the occurrence of delays in obtaining it
- standard—the ability of equipment to perform its intended function, the reliability of the equipment and the possibility of it breaking down.

Airlines were asked to give ratings on a scale with five possible responses—very poor, poor, satisfactory, good and excellent—and were also given opportunity to add more detailed comments.

Australian Customs Service

ACS was surveyed about their satisfaction with those airport facilities particularly relevant to them. Using the same scale as the airlines, ACS was asked to rate the availability and standard of:

- arrivals, immigration facilities
- arrivals, baggage inspection facilities
- departures, migration facilities
- management responsiveness to ACS concerns.

However, it should be noted that the five airports dealt with in this report have a relatively low level of international traffic and therefore, it was not always appropriate or possible for ACS to comment on facilities provided to them.

Airports

Airports provided objective numerical data about those airport facilities that they operated or had a significant amount of influence over, covering:

- apron system—number of aircraft parking bays
- aerobridges—number of aerobridges, number of passengers arriving using and not using aerobridges, number of aircraft using aerobridges, number of passengers departing using and not using aerobridges, total numbers of arriving and departing passengers
- check-in—number of check-in desks, staffing levels, hours of operation
- government inspection—number of inbound immigration and baggage inspection desks, number of outbound migration desks
- security—number of security clearance systems
- gate lounges—number of seats in gate lounges, size of lounges
- baggage processing—capacity of system, number of bags handled, number of hours of use, details of interruptions.
- baggage trolleys—number of trolleys
- signage—number of flight information displays and information points
- car parking—number of parking spaces, days open and total throughput of short and long term parking.

Where possible, the operator also provided the time of the peak hour for arrivals and departures and the number of passengers arriving in these hours.

However, in some cases the objective data was limited because the relevant facilities were either not present at the airport (e.g. aerobridges) or were present but not provided by the airport operator (e.g. security clearance systems in a number of cases). It should also be noted that the *Airport Regulations 1997* have not yet been updated to reflect these new indicators sought by the ACCC. Airports were given the choice of using the new templates provided by the ACCC or providing information as in the regulations. All airports responded using the templates, with two also providing further information according to the regulations.

Data issues

Readers of this report should recognise that some outcomes and facilities may be affected by factors outside the control of the airport operator. First, the conduct of outside parties such as airlines and ACS regarding such issues as staffing levels and scheduling may affect the provision of services at airports. Second, the relatively small size of the airports examined in this report, with low traffic volumes and few (if any) international flights, means that the costs of providing certain facilities (e.g. aerobridges) that might be available at larger airports cannot be justified. This may adversely affect the quality of service ratings.

ACCC approach to financial accounts reporting

Regulatory framework

The financial accounts reporting provisions of Part 7 of the Airports Act apply to all core regulated airports—Adelaide, Alice Springs, Brisbane, Canberra, Darwin, Gold Coast, Hobart, Launceston, Melbourne, Perth, Sydney and Townsville. Under Part 7, these airports must provide the ACCC with annual financial accounts including a statement of financial performance, statement of financial position and a statement of cash flows. Other supporting information, such as statements on accounting policies and disaggregation between aeronautical and non-aeronautical services, is also required. For the purposes of financial reports lodged under the Airports Act, Regulation 7.03 provides a detailed definition of 'aeronautical services'.

The ACCC's approach

In August 2002 the ACCC issued its *Airports Reporting Guideline—Information Requirements under Part 7 of the Airports Act 1996 and Section 27A of the Prices Surveillance Act 1983*, which set out further details on reporting requirements, as well as principles which airports must follow when preparing regulatory statements.

All information provided to the ACCC 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 according to the published guidelines, the Airports Act and the regulations under the Act.

This report contains statements of financial performance, statements of financial position and cash flow statements for each of the five airports. The report also presents the summary of significant accounting policies and certain other notes from each airport's notes to their financial accounts.

Alice Springs airport

Alice Springs airport is owned and operated by Alice Springs Airport Pty Ltd, a subsidiary of Northern Territory Airports Pty Ltd. It caters for domestic, regional and general aviation. The following section is based on data from airline surveys and also on information provided by the airport owner.

Quality of service monitoring

Airside services

Runways, taxiways and apron system

Both the availability and standard of the runways were rated from 'satisfactory' to 'good'. No additional comments were received.

The availability and standard of taxiways were both rated from 'poor' to 'good'. No additional comments were received.

Alice Springs airport has 10 regular passenger transport (RPT) aircraft parking bays covering an area of 37 875 square metres and an additional 35 general aviation (GA) aircraft bays covering 22 760 square metres. The apron facilities were rated from 'poor' to 'good' in both availability and standard, with one airline commenting that the aprons were in poor condition, with loose gravel and lines not properly re-marked to accommodate changed aircraft types.

Gates

The availability and standard of the gates at Alice Springs airport were both rated from 'satisfactory' to 'good'. No further comments were received.

Ground service equipment storage

Ground service equipment (GSE) storage received a rating of 'satisfactory' to 'good' for standard of storage, and a rating of 'poor' to 'good' for availability of storage.

Terminals

Check-in facilities

Alice Springs airport had 24 check-in facilities at 30 June 2003. The check-in facilities were rated from 'satisfactory' to 'good' for availability. The standard of the facilities was rated from 'poor' to 'satisfactory' with one airline commenting that the check-in facilities were very old and in their opinion would be regarded as unsafe in other airports.

Baggage processing facilities

The airport operator provides an automated baggage processing system with 1273 square metres of baggage reclaim area. Both the availability and standard of the baggage processing facilities at Alice Springs airport were rated from 'satisfactory' to 'good.' No additional comments were received.

Security

At 30 June 2003 the airport operator provided one people security clearance facility, the same as the previous year.

Gate lounges

At 30 June 2003 the airport operator provided 272 seats in two airport operator-managed gate lounges, covering 827 square metres of space. There were a further 60 seats in non-gate lounge areas (a drop of 20 seats from the previous year).

Flight information displays

The airport operator provides 20 flight information displays. This was the same as the previous year.

Car parking

The airport car park had a total of 124 short-term car park spaces (including five spaces for the disabled) and 46 long-term spaces. This was the same as the previous year.

Management responsiveness

Airlines rated the management system for dealing with quality of service concerns from ‘satisfactory’ to ‘good’. No additional comments were received.

Financial accounts reporting

The following section reports the financial accounts of the operator of Alice Springs airport, Alice Springs Airport Pty Ltd. It presents statements of financial performance, statements of financial position and cash flow statements for the 2002–03 and 2001–02 financial years and the summary of significant accounting policies from the audited 2002–03 financial accounts.

Statement of financial performance—2002–03

Description	Audited financial statements	Aeronautical services	Non-aeronautical services
	$'000	$'000	$'000
Revenue:			
Aeronautical revenue	5,585	5,585	
Non-aeronautical revenue	1,616		1,616
Total revenue	**7,202**	**5,585**	**1,616**
Expenditure:			
Salaries and wages	980	608	373
Depreciation	1,480	1,289	191
Amortisation of intangibles[5]	86		
Services and utilities	530	447	82
Property maintenance	468	401	66
Security costs	581	581	
Other costs	874	636	238
Total expenditure	**4,997**	**3,962**	**950**
Operating profit/(loss)	**2,204**		
Abnormal item—technical services agreement extinguishment	(1,049)	(650)	(399)
Earnings before interest and tax (EBIT)	**1,155**		
Interest	4,086		
Earnings before tax (EBT)	**(2,931)**		
Tax charge	-		
Profit/loss after tax	**(2,931)**		
Dividends paid	-		
Retained earnings	**(2,931)**		

5 The ACCC 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 performance—2001–02

Description	Audited financial statements	Aeronautical services	Non-aeronautical services
	$'000	$'000	$'000
Revenue:			
Aeronautical revenue	4,183	4,183	
Non-aeronautical revenue	1,704		1,704
Total revenue	**5,887**	**4,183**	**1,704**
Expenditure:			
Salaries and wages	846	420	426
Depreciation	1,465	1,109	356
Amortisation of intangibles[6]	86		
Services and utilities	473	336	137
Property maintenance	356	241	115
Security costs	1,072	1,072	
Other costs	639	390	248
Total expenditure	**4,937**		
Operating profit/(loss)	**950**		
Abnormals	-		
Earnings before interest and tax (EBIT)	**950**		
Interest	(3,504)		
Earnings before tax (EBT)	**(2,555)**		
Tax charge	-		
Profit/loss after tax	**(2,555)**		
Dividends paid	-		
Retained earnings	**(2,555)**		

6 The ACCC 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 at 30 June 2003

Description	Audited financial statements	Aeronautical services	Non-aeronautical services
	$'000	$'000	$'000
CURRENT ASSETS			
Cash	3,675		
Receivables	799	889	(90)
Other	8	5	3
Total current assets	4,482		
NON-CURRENT ASSETS			
Property, plant & equipment	17,471	13,140	4,331
Deferred expenditure	3,169		
Total non-current assets	20,639		
Total assets	**25,121**		
CURRENT LIABILITIES			
Creditors	825		
Provisions	300	172	128
Total current liabilities	1,125		
NON-CURRENT LIABILITIES			
Interest bearing liabilities	37,567		
Provisions	11	7	4
Total non-current liabilities	37,578		
Total liabilities	**38,702**		
Net assets	**(13,580)**		
SHAREHOLDER'S EQUITY			
Share capital	0.012		
Accumulated profits/(losses)	(13,580)		
Total shareholders' equity	**(13,580)**		
Accumulated profit(loss) at start of year	(10,650)		
Movements:			
Profit (loss) for the year	(2,931)		
Accumulated profit(loss) at end of year	**(13,580)**		

Statement of financial position at 30 June 2002

Description	Audited financial statements	Aeronautical services	Non-aeronautical services
	$'000	$'000	$'000
CURRENT ASSETS			
Cash	2,498		
Receivables	492	567	(75)
Accrued revenue	52	32	20
Other	17	8	8
Total current assets	3,059		
NON-CURRENT ASSETS			
Property, plant & equipment	18,694	12,523	6,171
Deferred expenditure	2,998		
Total non-current assets	21,692		
Total assets	**24,750**		
CURRENT LIABILITIES			
Creditors	692		
Provisions	288	173	115
Total current liabilities	980		
NON-CURRENT LIABILITIES			
Interest bearing liabilities	34,397		
Provisions	23	11	12
Total non-current liabilities	34,420		
Total liabilities	35,400		
Net assets	**(10,650)**		
SHAREHOLDER'S EQUITY			
Share capital	0.012		
Accumulated profits/(losses)	**(10,650)**		
Total shareholders' equity	**(10,650)**		
Accumulated profit(loss) at start of year	(8,095)		
Movements:			
Profit (loss) for the year	(2,555)		
Accumulated profit(loss) at end of year	**(10,650)**		

Cash flow statement—2001–02 and 2002–03

Description	2001–02	2002–03
	$'000	$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Inflows:		
Receipts from customers	6,506	7,612
Interest received		54
Outflows:		
Payments to suppliers and employees	(4,060)	(5,078)
Borrowing costs	(970)	(1,678)
Goods and services tax paid	(10)	(26)
Net cash flows provided by operating activities	1,465	885
CASH FLOWS FROM INVESTING ACTIVITIES		
Inflows:		
Proceeds from sale of property, plant & equipment	7	
Outflows:		
Acquisition of property, plant & equipment	(113)	(257)
Net cash flows used in investing activities	(106)	(257)
CASH FLOWS FROM FINANCING ACTIVITIES		
Inflows:		
Proceeds from borrowings (related parties)	(389)	549
Net cash flows provided by financing activities	(389)	549
Net increase/(decrease) in cash held	**970**	**1,177**
Cash at beginning of reporting period	**1,528**	**2,498**
Cash at the end of the reporting period	**2,498**	**3,675**

The following notes to the financial accounts are taken from the 2002–03 financial report of Alice Springs Airport Pty Ltd.

Summary of significant accounting policies

The financial report has been prepared in accordance with the historical cost convention.

The financial report is a general financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, which includes applicable accounting standards. Other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) have also been complied with.

The financial report has been prepared on the going concern basis due to the support of the ultimate controlling entity to not call in the loans due to them from the entity.

(a) Changes in accounting policies

The entity has adopted the revised accounting standard AASB1028 "Employee Benefits", which has resulted in a change in the accounting policy for the measurement of employee benefit liabilities. In accordance with the revised standard, the provision for employee benefits is now measured based on remuneration rates expected to be paid when the liability is settled. There has been no material effect on the financial statements of adoption of the revised standard.

(b) Economic dependency

A continuing material dependency exists with the parent entity. The nature of this support is in the form of not calling in the loans due to the parent by ASAPL.

(c) Income tax

The entity adopts the liability method of tax-effect accounting whereby the income tax expense shown in the statement of financial performance is based on the operating profit before income tax adjusted for any 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.

(d) Foreign currency translation

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 current at that date. Resulting exchange differences are brought to account in determining the profit and loss for the year.

(e) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured.

Aeronautical charges

Comprises:

- passenger based charges for scheduled regular public transport (RPT) passenger services.
- landing based charges for unscheduled, general aviation or non passenger services.
- passenger based charges for the use of terminal facilities.
- safety and security charge levied on a per passenger basis in respect of government mandated security charges where one hundred percent cost recovery applies.

Trading income

Comprises concessionaire rent, overages, and other charges received including income from public car parks.

Property

Comprises income from company owned terminals, buildings and other leased areas.

(f) Receivables

Trade receivables are recognised and carried at original invoice amount.

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.

Receivables from related parties are recognised and carried at the nominal amount due. Interest is taken up as income on an accrual basis.

(g) Acquisition of assets

The cost method of accounting is used for all acquisition 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.

(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 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 profit and loss account.

The expected net cash flows included in determining recoverable amounts of non-current assets are not discounted to their present values using a market determined, risk-adjusted discount rate.

(i) Infrastructure assets and plant and equipment

(i) Cost and valuation

The cost base assigned to infrastructure assets and plant and equipment is set out in note 7.

(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 to ASAPL.

Depreciation and amortisation rates used are as follows:

	2003	2002
Runways taxiways & aprons	4.3%	4.3%
Roads & carparks	8.7%	8.7%
Fences & gates	12.0%	12.0%
Lighting & visual aids	10.0%	10.0%
Passenger terminal	4.0% – 10.0%	4.0% – 10.0%
Buildings	4.0% – 10.0%	4.0% – 10.0%
Plant & equipment	10.0% – 20.0%	10.0% – 20.0%
Vehicles	15.0% – 18.0%	15.0% – 18.0%
Computer equipment	33.3%	33.3%

(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.

(j) Trade and other creditors

These amounts represent liabilities for goods and services provided to the company prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(k) Borrowing costs

Borrowing costs are recognised as expenses in the period in which they are incurred. Borrowing costs include:

- interest on bank overdraft and loans
- senior and junior debt agents fees (including premium)
- ancillary costs incurred in connection with the ongoing conduct of borrowings.

The entity refinanced its debt facilities on 6 June 2003 and the borrowing costs incurred in acquiring the new bank loan have been capitalised and amortised over the period of the loan.

(l) Maintenance and repairs

Maintenance, repair costs and minor renewals, are charged as expenses as incurred.

(m) Employee benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave, and long service leave.

Liabilities arising in respect of wages and salaries, annual leave, and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the market yield as at the reporting date on national government bonds, which have terms to maturity approximating the terms of the related liability, are used.

Employee benefit expenses and revenues arising in respect of the following categories:

- wages and salaries, non-monetary benefits, annual leave, long service leave, and other leave benefits and

- other types of employee benefits.

are recognised against profits on a net basis in their respective categories.

In respect of the entity's defined benefits superannuation plan, any contributions made to the superannuation funds have been recognised against profits when due. The entity ceased contributing to the defined benefit superannuation plan on 28 February 2003.

(n) Cash

For the purposes of the statement of cash flows, 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.

(o) Deferred expenditure

Bid costs

The direct costs incurred in the purchase of the airport leases have been capitalised and are being amortised over the 99 year life of the lease.

Finance costs

The fees incurred in the underwriting of the senior and junior debt were capitalised and are being amortised over 5 years. The fees incurred in the refinance of the senior and junior debt on 6 June 2003 have been capitalised and will be amortised over 5 years.

The balances of deferred expenditure are reviewed annually and any balance representing future benefits—the realisation of which is considered to be no longer probable—are written off.

(p) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amounts of goods and services tax except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Note 3. Income tax

The prima facie tax on operating loss after ordinary activities differs from the income tax provided in the financial statements as follows:

Prima facie tax on operating loss	**(879,197)**	(766,397)
Tax effect of permanent differences		
Amortisation of intangible assets	**9,305**	9,305
Other items (net)	**(8,302)**	250
	(878,194)	(756,842)
Income tax benefit not brought to account	**878,194**	756,842
Income tax attributable to ordinary activities	**0**	0

Tax losses were transferred out for nil consideration. (2003: $3,736,725 2002: $7,906,697)

The directors estimate that the potential future income tax benefit at balance date in respect of tax losses not brought to account is:	**0**	490,121

This benefit for tax losses will only be obtained if:

(i) future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised

(ii) the conditions for deductibility imposed by tax legislation continued to be complied with and

(iv) no changes in tax legislation adversely affect the company in realising the benefit.

Tax consolidation

For the purpose of income tax, ASAPL and its ultimate parent entity along with that entity's 100% owned subsidiaries intend to form a tax consolidated group. The head entity of the tax consolidated group will be Airport Development Group Pty Ltd (ADGPL). At the date of signing the financial report, ASAPL has not determined the date of entry into tax consolidation because this decision will be based upon the most favourable outcome in terms of the transitional rules in the tax consolidation legislation. The date of entry will be determined at the time of lodging the tax return.

Operating statistics

	2000–01	2001–02	2002–03
PASSENGERS			
Domestic passengers (including transits)	N/A	522,000	572,300
International passengers (excluding transit)			
International transit passengers			
Domestic on-carriage			
Total passengers	**N/A**	**522,000**	**572,300**
AIRCRAFT MOVEMENTS			
Regular public transport aircraft movements	11,820	8,154	7,570
General aviation aircraft movements	22,380	17,940	16,192
Total aircraft movements	**34,200**	**26,094**	**23,762**
TOTAL TONNES LANDED	**285,124**	**205,934**	**222,976**
AVERAGE STAFF EQUIVALENTS			
Aeronautical services	6.5	6	8
Non-aeronautical services	6.5	6	5
Total average staff equivalents	**13**	**12**	**13**
AREA (HECTARES)			
Aeronautical services	1,577	1,577	1,577
Non-aeronautical services	1,967	1,967	1,967
Total area (hectares)	**3,544**	**3,544**	**3,544**

Gold Coast airport

Gold Coast airport is owned and operated by Gold Coast Airport Limited. It caters for international and domestic aviation. The following section is based on data from airline and ACS surveys, and also on information provided by the airport owner.

Quality of service monitoring

Airside services

Runways, taxiways and apron system

Gold Coast airport's runways and taxiways received ratings from 'satisfactory' to 'good' for both availability and standard. No further comments were received.

Gold Coast airport provided 14 aircraft parking bays at 30 June 2003. The apron system received ratings from 'satisfactory' to 'good' for both availability and standard. No further comments were received.

Gates

Gold Coast airport received ratings of 'satisfactory' for gate availability and 'good' for standard of gates. One airline commented that the distance to certain parking bays was affecting their turnaround times.

Ground service equipment storage

Gold Coast airport's GSE storage received ratings ranging from 'satisfactory' to 'good' for both availability and standard. No further comments were received.

Terminals

Check-in facilities

Gold Coast airport provided 14 check-in desks as at 30 June 2003.

The international terminal check-in desks received ratings of 'poor' for both availability and standard. One airline commented that it had OH&S concerns about the design of the desks, and that a limited number of common user desks were available, restricting its ability to provide services in the terminal. Gold Coast airport responded that 10 of the 14 desks were common user desks, that usually only 6 of the 14 desks were being operated and that one international carrier was looking to reduce its counters used and that it believed the other was happy with its current number.

The domestic terminal check-in facilities were rated as 'satisfactory' for availability and standard.

Baggage processing facilities

The international terminal baggage processing facilities received ratings of 'poor' for availability and 'satisfactory' for standard. One airline commented that the arrival belt was too small for a 767 aircraft and that only one belt was available, leading to congestion when multiple aircraft arrived. Gold Coast airport responded that it believed the belt was ample for the one 767 that arrives each day and that it would be satisfactory if properly managed by handling agents.

The domestic terminal facilities received ratings of 'good' for both availability and standard.

Government inspection

ACS gave a rating of 'satisfactory' for the availability and standard of immigration arrival facilities, commenting that queuing before passport control is inadequate only when two flights arrive close together. ACS also gave a rating of 'satisfactory' for the availability and standard of immigration departure facilities, commenting that seating for departing international passengers is a problem when domestic flights are operating at the same time. This is because the departure lounge must be divided in half to separate the domestic and international flights.

ACS also gave ratings of 'satisfactory' for availability and 'good' for standard of the baggage inspection and examination area for arrivals. It commented that the baggage reclaim belt cannot carry all bags from a single B737 or B767.

Security

Gold Coast airport operated two passenger security clearance facilities at 30 June 2003.

Gate lounges

The airport operator provided two gate lounges at 30 June 2003, one with 184 seats and the other with 208 seats. This was an increase of 28 seats from the previous year. Gold Coast airport indicated that it was considering expansion options for the departure lounge.

Flight information displays

The airport operator provided 25 flight information displays at 30 June 2003.

Car parking

The operator of Gold Coast airport provided 713 car parking spaces—300 short-term and 413 long-term—at 30 June 2003. This was 65 more than the previous year.

Management responsiveness

Management systems for dealing with quality of service concerns were given ratings ranging from 'poor' to 'good'. One airline commented that the relationship with the airport operator worked well with open communications, and ACS commented that day to day operations were handled very well by the airport operator. However, one airline commented that management were extremely difficult to deal with. Gold Coast airport stated in response that it believed that it had positive relationships with its stakeholders and that no issue had been raised with airport management.

Financial accounts reporting

The following section reports the financial accounts of the operator of Gold Coast airport, Gold Coast Airport Limited. It presents statements of financial performance, statements of financial position and cash flow statements for the 2002–03 and 2001–02 financial years and the summary of significant accounting policies from the audited 2002–03 financial accounts.

Statement of financial performance—2002–03

Description	Audited financial statements	Aeronautical services	Non-aeronautical services
	$'000	$'000	$'000
Revenue:			
Aeronautical revenue	15,289	15,289	
Non-aeronautical revenue	8,735		8,735
Total revenue	**24,024**	**15,289**	**8,735**
Expenditure:			
Salaries and wages	2,482	1,352	1,130
Depreciation	1,958	1,743	215
Amortisation of intangibles[7]	1,380		
Services and utilities	1,460	914	546
Property maintenance	851	540	311
Security costs	835	835	
Other costs	14,864	7,231	7,633
Total expenditure	**23,830**		
Operating profit/(loss)	**194**		
Earnings before interest and tax (EBIT)	**194**		
Interest	-		
Earnings before tax (EBT)	**194**		
Tax charge	-		
Profit/loss after tax	**194**		
Dividends paid	-		
Retained earnings	**194**		

7 The ACCC 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 performance—2001–02

Description	Audited financial statements	Aeronautical services	Non-aeronautical services
	$'000	$'000	$'000
Revenue:			
Aeronautical revenue	9,230	9,230	
Non-aeronautical revenue	7,119	3,744	3,375
Total revenue	**16,349**	**12,974**	**3,735**
Expenditure:			
Salaries and wages	1,440	861	579
Depreciation	2,520	1,686	834
Amortisation of intangibles[8]	-		
Services and utilities	381	123	258
Property maintenance	1,403	1,403	-
Security costs	481	279	202
Other costs	3,593	2,000	1,593
Total expenditure	**9,818**	**6,352**	**3,466**
Operating profit/(loss)	**6,531**		
Earnings before interest and tax (EBIT)	**6,531**		
Interest	3,824 (10,480)		
Earnings before tax (EBT)	**(125)**		
Tax charge	-		
Profit/loss after tax	**(125)**		
Dividends paid	-		
Retained earnings	**(125)**		

8 The ACCC 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 at 30 June 2003

Description	Audited financial statements	Aeronautical services	Non-aeronautical services
	$'000	$'000	$'000
CURRENT ASSETS			
Cash	6,614		
Receivables	792	285	507
Inventories	-		
Accrued revenue	1,481	1,183	298
Other	436	-	436
Total current assets	9,323		
NON-CURRENT ASSETS			
Receivables	-		
Investments	-		
Property, plant & equipment	26,122	23,569	2,553
Intangibles	95,578		
Other	-		
Total non-current assets	121,700		
Total assets	**131,023**		
CURRENT LIABILITIES			
Creditors	4,263		
Borrowings	79		
Other	-		
Provisions	210	-	210
Total current liabilities	4,552		
NON-CURRENT LIABILITIES			
Borrowings	132,142		
Other	-		
Provisions	-		
Total non-current liabilities	132,142		
Total liabilities	**136,694**		
Net assets	**(5,671)**		
SHAREHOLDER'S EQUITY			
Share capital	615		
Accumulated profits/(losses)	(6,286)		
Total shareholders' equity	**(5,671)**		
Accumulated profit(loss) at start of year	(6,479)		
Movements:			
Profit (loss) for the year	193		
Accumulated profit(loss) at end of year	**(6,286)**		

Statement of financial position at 30 June 2002

Description	Audited financial statements	Aeronautical services	Non-aeronautical services
	$'000	$'000	$'000
CURRENT ASSETS			
Cash	17,858		
Receivables	1,692	1,472	220
Inventories	-		
Accrued revenue	120	15	105
Other	156	104	52
Total current assets	19,826	1,591	377
NON-CURRENT ASSETS			
Receivables	-		
Investments	-		
Property, plant & equipment	112,239	60,277	51,962
Intangibles	-		
Other	-		
Total non-current assets	112,239	60,277	51,962
Total assets	**132,065**	**61,868**	**52,339**
CURRENT LIABILITIES			
Creditors	4,056		
Borrowings	0		
Other unearned revenue	299	-	299
Provisions	45	-	45
Total current liabilities	4,400		
NON-CURRENT LIABILITIES			
Borrowings	133,529		
Other	-		
Provisions	-		
Total non-current liabilities	133,529		
Total liabilities	**137,929**		
Net assets	**(5,864)**		
SHAREHOLDER'S EQUITY			
Share capital	615		
Accumulated profits/(losses)	(6,479)		
Total shareholders' equity	**(5,864)**		
Accumulated profit(loss) at start of year	(6,354)		
Movements:			
Profit (loss) for the year	(125)		
Accumulated profit(loss) at end of year	**(6,479)**		

Cash flow statement—2001–02 and 2002–03

Description	2001–02	2002–03
	$'000	$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Inflows:		
Receipts from customers	16,090	24,237
Interest received	3,824	4,389
Outflows:		
Payments to suppliers and employees	(7,368)	(11,943)
Interest paid	(8,064)	(13,794)
Income tax paid	-	-
Net cash flows provided by operating activities	4,482	2,889
CASH FLOWS FROM INVESTING ACTIVITIES		
Inflows:		
Proceeds from sale of property, plant & equipment	102	-
Outflows:		
Acquisition of property, plant & equipment	(1,358)	(11,291)
Other	-	(1,121)
Net cash flows used in investing activities	(1,256)	(12,412)
CASH FLOWS FROM FINANCING ACTIVITIES		
Inflows:		
Proceeds from borrowings	-	131,792
Outflows:		
Repayment of borrowings	-	(133,513)
Dividends paid	-	-
Net cash flows provided by financing activities	-	(1,721)
Net increase/(decrease) in cash held	**3,226**	**(11,244)**
Cash at beginning of reporting period	**14,632**	**17,858**
Cash at the end of the reporting period	**17,858**	**6,614**

The following notes to the financial accounts are taken from the 2002–03 financial report of Gold Coast Airport Limited.

Summary of significant accounting policies

In the directors' opinion, the company is not a reporting entity because there are no users dependent on general purpose financial reports.

This is a special purpose financial report that has been prepared for the sole purpose of complying with the *Corporations Act 2001* requirements to prepare and distribute a financial report to the members, and must not be used for any other purpose. The directors have determined that the accounting policies adopted are appropriate to meet the needs of the members.

The company has applied accounting standard AASB 1025; *Application of the Reporting Entity Concept and Other Amendments,* which amended the application clauses of all standards existing at the date of its issue so that they now apply only to companies that are reporting entities or to companies which are not reporting entities but prepare general purpose financial reports. The financial report has been prepared in accordance with AASB 1018 *Statement of Financial Performance, AASB 1034 Financial Report Presentation and Disclosures and AASB 1040 Statement of Financial Position* which apply to all entities required to prepare financial reports under the *Corporations Act 2001* and other applicable accounting standards and Urgent Issues Group Consensus Views with the exception of the disclosure requirements in AASB 1017 (related party disclosures) Para 4.2 (b).

The financial report is prepared in accordance with the historical cost convention, except for certain assets which as noted are at valuation. Unless otherwise stated, the accounting policies adopted are consistent with those of the previous year. Comparative information is reclassified where appropriate to enhance comparability.

(a) Stapled securities

GCAL in previous years issued stapled securities, which comprised a $99 loan note and a $1 ordinary share. The two components were a stapled security which could not be traded separately. These securities were repaid by GCAL during the 2003 financial year.

For comparative purposes, the loan notes are classified in the balance sheet as non-current liabilities, because they are principally a debt instrument.

Distributions to security holders may comprise interest paid on the loan notes, repayment of loan note principal, return of capital and dividends.

(b) Receivables

All trade debtors are recognised at the amounts receivable as they are due for settlement no more than 30 days from the date of recognition.

Collectibility of trade debtors is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful debts is raised when some doubt as to collection exists and in any event when the debt is more than 90 days overdue.

(c) Capitalisation of preliminary expenses

Preliminary expenses, including consultancy costs, formation expenses and establishment costs, incurred as part of obtaining the lease right from the Commonwealth to operate the airports prior to commencement of operations have been capitalised as an intangible asset. The capitalised preliminary expenses are subsequently amortised on a straight-line basis over the period over which the benefit from the capitalised preliminary expenses is expected to arise. Capitalised preliminary expenses are carried at the lower of cost and recoverable amount.

(d) Income tax

Tax effect accounting procedures are followed whereby the income tax expense in the profit and loss statement is matched with the accounting profit after allowing for permanent differences.

GCAL is a wholly owned Australian controlled entity of Queensland Airports Limited (QAL) as at balance date. QAL implemented the tax consolidation legislation as at 16 May 2003.

As a consequence, QAL (as the head entity) recognises current and deferred tax amounts relating to transactions, events and balances of all its controlled entities, including GCAL, as if those transactions, events and balances were its own. Amounts receivable or payable to QAL by GCAL in accordance with a tax sharing agreement are recognised separately as tax related amounts receivable or payable. Expenses and revenues arising under the tax sharing agreement are recognised as a component of income tax expense.

(e) Cash

For the purposes of the statements of cash flows, cash includes all cash on hand, deposits held at call with banks and investments in the money market instruments, net of bank overdrafts.

(f) Comparative figures

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current period.

(g) Recoverable amounts on non-current assets

The recoverable amount of an asset is the net amount expected to be recovered through the cash inflows and outflows 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 written down to its recoverable amount. Where net cash inflows are derived from a group of assets working together, recoverable amount is determined on the basis of the relevant group of assets. The decrement in the carrying amount is recognised as an expense in the net profit or loss in the reporting period in which the recoverable amount write-down occurs. The expected net cash flows included in determining recoverable amounts of non-current assets have not been discounted.

(h) Revenue recognition

Amounts disclosed as revenue are net of duties and taxes paid. Revenue is recognised on an accrual basis. Revenue received in advance is recorded as a liability in the balance sheet and brought to account in the profit and loss over the period in which the benefit will be derived.

Aeronautical revenues comprise landing fees based on the number of passengers arriving and departing on an aircraft and a security charge for the recovery of charges imposed by Australian Protective Services which is also charged on a per passenger basis. International terminal charges are levied on a per flight basis.

Commercial trading revenue comprises concessionaire rent and other charges received including income from public car parks and car rental agencies. It also includes trading revenue net of purchases for a retail café.

Property revenue comprises revenue income from airport terminals, buildings and other leased assets, including advertising.

(i) Acquisition of assets

The purchase method of accounting is used for all acquisitions of assets regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition. Where equity instruments are issued in an acquisition, the value of their instruments is their market price as at the acquisition date, unless the notional price at which they could be placed in the market is a better indicator of fair value.

(j) Property, plant and equipment

Land held under lease and leasehold improvements are carried at cost or directors' valuation.

As a result of obtaining the lease right to operate the airport from the Commonwealth, the company obtained the right to the use of all property, plant and equipment associated with the airport. Upon acquisition, this property, plant and equipment has been recorded by the company at the previous written-down values recorded by the Commonwealth on completion date. The directors believed that the written-down value of the property, plant and equipment at that date reflected the recoverable value of those non-current assets. Under the lease arrangement with the Commonwealth, all airport land, structures and building revert back to the Commonwealth at the end of the 99 year lease term. As a result all leasehold land is amortised by the company over a period not exceeding 99 years.

Buildings, structures, property, plant and equipment are depreciated over their useful economic lives as follows:

	Life	Method
Leasehold improvements:		
Runways, taxiways and aprons	25 years	prime cost
Roads and car-parks	10 years	prime cost
Fences and gates	5–40 years	prime cost
Lighting and visual aids	6.7–20 years	prime cost
Other permanent buildings	6.7–25 years	prime cost
Main services	6.7–20 years	prime cost
Plant and equipment	5–20 years	prime cost
Motor vehicles	6.7 years	prime cost
Computer equipment	3–5 years	prime cost
Furniture and fittings	3–10 years	prime cost

(k) Borrowing costs

Borrowing costs are recognised as expenses in the period in which they are incurred, except where they are included in the costs of qualifying assets.

Borrowing costs include:

- interest on long-term borrowings
- amortisation of ancillary costs incurred in connection with the arrangement of borrowings
- finance lease charges.

(l) Intangible goodwill of lease right

The agreed purchase price paid to the Commonwealth to obtain the right to operate the airport was in excess of the net fair values of the tangible assets and liabilities acquired at completion date. As a result, the excess of the purchase price over the tangible net fair values of the assets and liabilities on completion date has been recorded as an intangible goodwill of lease right, representing the premium paid by the company to obtain the right to operate the airport.

The intangible goodwill of the lease right also includes the value on acquisition attributable to the right to exclusive use the Commonwealth land associated with the airport lease, the value of the Gold Coast airport brand and existing relationships with customers and suppliers.

The directors believe that the expected future cash flows of the airport are sufficient to warrant the recognition of this intangible goodwill of lease right and it will be amortised on a straight-line basis over the 99 year lease right period. The unamortised balance of the goodwill of lease right is reviewed each balance date and charged to the profit and loss account to the extent that future benefits from the lease right are no longer probable.

(m) Employee benefits

Provision has been made in the financial statements for benefits accruing to employees in relation to annual leave and long service leave. No provision is made for non-vesting sick leave as the anticipated pattern of future sick leave taken indicates that accumulated non-vesting leave will never be paid. A long service leave liability is recognised, and is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date.

(n) Derivative financial instruments

The company is potentially exposed to changes in interest rates from its activities although it uses interest rate swaps to hedge credit risks. Derivative financial instruments are not held for speculative purposes. Interest payments and receipts under interest rate swap contracts are recognised on an accruals basis and included in interest expense during the period.

(o) Trade and other creditors

These amounts represent liabilities for goods and services provided to the company prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(p) Interest bearing liabilities

Loans are carried at their principal amounts which represent the present value of future cash flows associated with servicing the debt. Interest is accrued over the period it becomes due and is recorded as part of other creditors.

(q) Maintenance and repairs

Plant and other assets of the company are required to be overhauled or refurbished on a regular basis. This is managed as part of an ongoing major cyclical maintenance program. The costs of this maintenance are charged as expenses as incurred, except where they relate to the replacement of a component of an asset, in which case the costs are capitalised and depreciated in accordance with the property plant and equipment note. Other routine operating maintenance, repair costs and minor renewals are charged as expenses as incurred.

(r) Rounding of amounts

The company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities and Investments Commission, relating to the “rounding off” of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that class order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

(s) Investments

Interests in common controlled entities are recorded as non-current assets and are stated at the lower of cost and recoverable amount. Since the company's share of the results of common controlled entities is not material, a supplementary equity statement is not included.

(t) Leased non-current assets

A distinction is made between finance leases which effectively transfer from the lessor to the lessee substantially all the risks and benefits incident to ownership of leased non-current assets, and operating leases under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the interest expense.

The lease asset is amortised on a straight line basis over the term of the lease, or where it is likely that the consolidated entity will obtain ownership of the asset, the life of the asset. The lease asset held at the reporting date is being amortised over a period of 4 years.

Lease payments are allocated between interest (calculated by applying the interest rate implicit in the lease to the outstanding amount of the liability) and reduction of the liability.

Other operating lease payments are charged to the statement of financial performance in the periods in which they are incurred, as this represents the pattern of benefits derived from the leased assets.

Income tax

		16 May 2003	30 June 2002
		$'000	$'000
(a)	The amount of income tax attributable to the financial year differs from the amount prima facie payable on the operating loss. The differences reconciled as follows:		
	Prima facie income tax expense on operating profit prior to the implementation of tax consolidation at 30% (2002: 30%)	374	(38)
	Tax effect of permanent differences:		
	Amortisation	293	314
	Non-deductible entertainment expense	4	2
		671	278
	(Benefit)/effect of tax losses not recognised	0	(278)
	Income tax adjusted for permanent differences	671	0
	Benefit of tax balances due to timing differences and tax losses not previously recognised	596	0
	Net income tax expense	75	0
	Transfer of tax balances to QAL as a result of implementation of tax consolidation	(75)	0
	Net income tax expense/benefit brought to account	0	0

The transfer of tax balances to QAL is reconciled as follows:

Future income tax benefit (tax losses)	203	
Future income tax benefit (timing differences)	894	
Provision for future income tax benefit	(1,172)	
Net tax balance transferred (DTL)	**75**	
(b) The directors estimate that the potential future income tax benefit at 30 June 2003 in respect of tax losses not brought to account is:		
	0	492
The provision for deferred income tax was reduced to nil for the 30 June 2002 year after taking into account the following:		
Future income tax benefits attributable to timing differences		(28)
Future income tax benefits attributable to tax losses		447

The directors are of the opinion that the benefit from the tax losses will be obtained and is "virtually certain" (AASB 1020) as:

(i) the company will derive future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised, and

(ii) the company will continue to comply with the conditions for deductibility imposed by tax legislation, and

(iii) no current changes in tax legislation adversely affect the company in realising the benefit from deductions for the losses.

Gold Coast Airport Limited is a wholly owned Australian controlled entity of Queensland Airports Limited (QAL). QAL elected to implement the tax consolidation legislation on 16 May 2003. The Australian Taxation office has not yet been notified of this decision.

As a consequence, QAL, as the head entity in the tax consolidation group, recognises current and deferred tax amounts relation to transactions, events & balances of GCAL as if those transactions, events & balances were its own in addition to any in its own right.

Amounts receivable or payable under a tax sharing agreement with QAL will be recognised separately as a tax rebated amount payable or receivable by GCAL as and expense or revenue.

As at 30 June 2003 no amounts were payable by GCAL to QAL in accordance with a tax sharing agreement.

Operating statistics

	2000–01	2001–02	2002–03
PASSENGERS			
Domestic passengers (including transits)	1,862,410	1,655,860	2,041,432
International passengers (excluding transit)	33,760	68,247	173,756
International transit passengers			
Domestic on-carriage			
Total passengers	**1,896,170**	**1,724,107**	**2,215,188**
AIRCRAFT MOVEMENTS			
Regular public transport aircraft movements	20,206	16,288	21,072
General aviation aircraft movements	48,392	55,188	58,990
Total aircraft movements	**68,598**	**71,476**	**80,062**
TOTAL TONNES LANDED	**726,060**	**610,891**	**729,225**
AVERAGE STAFF EQUIVALENTS			
Aeronautical services	17	25	29
Non-aeronautical services	13	16	19
Total average staff equivalents	**30**	**41**	**48**
AREA (HECTARES)			
Aeronautical services	186.2	186.2	186.2
Non-aeronautical services	197.4	197.4	197.4
Total area (hectares)	**383.6**	**383.6**	**383.6**

Hobart airport

Hobart airport is owned and operated by Hobart International Airport Pty Ltd. It caters for domestic, general and infrequent (around four charter flights a year) international aviation. The following section is based on data from airline surveys and also on information provided by the airport owner.

Quality of service monitoring

Airside services

Runways, taxiways and apron system

Both the availability and standard of the runway, taxiways and apron system at Hobart airport were rated between 'satisfactory' and 'good'. No additional comments were received. Hobart airport had five RPT aircraft parking bays—one for international RPT aircraft and four for domestic RPT aircraft—at 30 June 2003.

Gates

The availability of gates at Hobart airport was rated between 'satisfactory' and 'good'. The standard of the gate facilities was rated as 'good.' No additional comments were received.

Ground service equipment storage

Hobart airport was rated from 'satisfactory' to 'good' for both availability and standard of GSE storage sites. No additional comments were received.

Terminals

Most of the terminal facilities at Hobart airport are airline-operated and so do not form part of this report.

Check-in, baggage processing and security facilities

The check-in, baggage processing and security facilities at Hobart airport are leased out to the airlines and hence are not airport-operated. However, one airline commented that the baggage area is exposed to the weather. Hobart airport responded that the baggage facility was roofed and had walls, and that despite the area not being totally sealed to the weather, the airline using the facility had, at the time of licensing, indicated that it did not wish to have the facility upgraded.

Car parking

At 30 June 2003 Hobart airport provided 500 parking spaces in a shared short-term and long-term car park.

Management responsiveness

Airlines rated Hobart airport's management system for responding to quality of service concerns as being from 'satisfactory' to 'good'. No additional comments were received.

Financial accounts reporting

The following section reports the financial accounts of the operator of Hobart airport, Hobart International Airport Pty Ltd. It presents statements of financial performance, statements of financial position and cash flow statements for the 2002–03 and 2001–02 financial years and the summary of significant accounting policies from the audited 2002–03 financial accounts.

Statement of financial performance—2002–03

Description	Audited financial statements	Aeronautical services	Non-aeronautical services
	$'000	$'000	$'000
Revenue:			
Aeronautical revenue	4,255	4,255	
Non-aeronautical revenue	4,830		4,830
Total revenue	**9,085**	**4,255**	**4,830**
Expenditure:			
Salaries and wages	1,489	1,244	245
Depreciation	537	405	132
Amortisation of intangibles[9]	312		
Services and utilities	416	193	224
Property maintenance	561	473	88
Security costs[10]	-	-	-
Other costs	1,438	1,005	433
Total expenditure	**4,753**		
Operating profit/(loss)	**4,332**		
Earnings before interest and tax (EBIT)	**4,332**		
Interest	2,264		
Earnings before tax (EBT)	**2,068**		
Tax charge	801		
Profit/loss after tax	**1,267**		
Dividends paid	-		
Retained earnings	**1,267**		

9 The ACCC 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.

10 As the domestic terminal is subject to a long-term lease to airlines, any domestic flight terminal expense is incurred by the airlines. The minimal amount of international flight security expense is accounted for in building maintenance. As such, Hobart airport has no security costs for 2002–03.

Statement of financial performance—2001–02

Description	Audited financial statements	Aeronautical services	Non-aeronautical services
	$'000	$'000	$'000
Revenue:			
Aeronautical revenue	2,462	2,462	
Non-aeronautical revenue	4,278		4,278
Total revenue	**6,740**	**2,462**	**4,278**
Expenditure:			
Salaries and wages	1,090	813	277
Depreciation	524	401	123
Amortisation of intangibles[11]	313		
Services and utilities	377	163	214
Property maintenance	273	187	86
Security costs	-	-	-
Other costs	731	503	228
Total expenditure	**3,308**		
Operating profit/(loss)	**3,432**		
Abnormals			
Prior year's rates adjustment	219	154	65
Doubtful debts	(237)	-	(237)
Loss on sale of assets	(3)	(2)	(1)
Earnings before interest and tax (EBIT)	**3,411**		
Interest	2,266		
Earnings before tax (EBT)	**1,145**		
Tax charge	480		
Profit/loss after tax	**665**		
Dividends paid	-		
Retained earnings	**665**		

[11] The ACCC 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 at 30 June 2003

Description	Audited financial statements	Aeronautical services	Non-aeronautical services
	$'000	$'000	$'000
CURRENT ASSETS			
Cash	1,846		
Receivables	867	338	529
Inventories	6	4	2
Accrued revenue	(5)	(4)	(1)
Other	73	68	5
Total current assets	2,787		
NON-CURRENT ASSETS			
Investments	2,556	2,403	153
Property, plant & equipment	10,521	8,854	1,667
Intangibles	26,806		
Other	2,991	2,085	906
Total non-current assets	42,874		
Total assets	**45,661**		
CURRENT LIABILITIES			
Creditors	706		
Borrowings	-		
Other	386		
Provisions	532	414	118
Total current liabilities	1,624		
NON-CURRENT LIABILITIES			
Borrowings	40,816		
Other	352		
Provisions	32		
Total non-current liabilities	41,200		
Total liabilities	**42,824**		
Net assets	**2,837**		
SHAREHOLDER'S EQUITY			
Share capital	1,205		
General reserves	1,500		
Accumulated profits/(losses)	132		
Total shareholders' equity	**2,837**		
Accumulated profit(loss) at start of year	370		
Movements:			
Profit (loss) for the year	1,267		
Decrease in retained profits on adoption of AS1028	(5)		
Other reserves	(1,500)		
Accumulated profit(loss) at end of year	**132**		

Statement of financial position at 30 June 2002

Description	Audited financial statements	Aeronautical services	Non-aeronautical services
	$'000	$'000	$'000
CURRENT ASSETS			
Cash	1,700		
Receivables	844	290	554
Inventories	7	5	2
Accrued revenue	(9)	(7)	(2)
Other	145	110	35
Total current assets	2,687		
NON-CURRENT ASSETS			
Investments	4,055	3,078	977
Property, plant & equipment	10,116	9,211	905
Intangibles	27,119		
Other	118		
Total non-current assets	41,477		
Total assets	**44,164**		
CURRENT LIABILITIES			
Creditors	714		
Borrowings	-		
Other			
Provisions	782	566	1,882
Total current liabilities	1,496		
NON-CURRENT LIABILITIES			
Borrowings	40,816		
Other			
Provisions	276	194	82
Total non-current liabilities	41,092		
Total liabilities	**42,588**		
Net assets	**1,576**		
SHAREHOLDER'S EQUITY			
Share capital	1,205		
General reserves	-		
Accumulated profits/(losses)	371		
Total shareholders' equity	**1,576**		
Accumulated profit(loss) at start of year	(294)		
Movements:			
Profit (loss) for the year	665		
Accumulated profit(loss) at end of year	**371**		

Cash flow statement—2001–02 and 2002–03

Description	2001–02	2002–03
	$'000	$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Inflows:		
Receipts from customers	7,026	9,909
Interest received	106	172
Outflows:		
Payments to suppliers and employees	(2,782)	(4,745)
Interest paid	(2,261)	(2,265)
Income tax paid	(318)	(714)
GST paid	(446)	
Net cash flows provided by operating activities	1,326	2,357
CASH FLOWS FROM INVESTING ACTIVITIES		
Inflows:		
Proceeds from sale of property, plant & equipment	35	1
Outflows:		
Acquisition of property, plant & equipment	(180)	(944)
Term Investment	(800)	
Payment- debt servicing amount	(20)	
Other		(1,268)
Net cash flows used in investing activities	(965)	(2,211)
CASH FLOWS FROM FINANCING ACTIVITIES		
Inflows:		
Proceeds from borrowings	-	-
Outflows:		
Repayment of borrowings	-	-
Dividends paid	-	-
Net cash flows provided by financing activities	-	-
Net increase/(decrease) in cash held	**360**	**146**
Cash at beginning of reporting period	**1,340**	**1,700**
Cash at the end of the reporting period	**1,700**	**1,846**

The following notes to the financial accounts are taken from the 2002–03 financial report of Hobart International Airport Pty Ltd.

Summary of significant accounting policies

Basis of accounting

The financial report is a general purpose financial report that has been prepared in accordance with the Corporations Act which includes applicable accounting standards, Urgent Issues Group consensus views, other authoritative pronouncements of the Australian Accounting Standards Board and other mandatory professional reporting requirements. The financial report is prepared on an accruals basis and is based on historical costs and does not take into account changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets. The accounting policies have been consistently applied, unless otherwise stated.

Changes in accounting policies

(a) Provision for dividends

The consolidated entity has adopted the new accounting standard AASB 1044 "Provisions, Contingent Liabilities and Contingent Assets" which has resulted in a change in the accounting for the dividends provision. Previously, the consolidated entity recognised a provision for dividend based on the amount that was proposed after the reporting date. In accordance with the new standard, a provision for dividends will only be recognised at the reporting date where the dividends have been recommended prior to the reporting date. In accordance with the new standard, no provision for dividend has been recognised for the year ended 30 June 2003.

(b) Employee benefits

The consolidated entity has adopted the revised accounting standard AASB 1028 "Employee Benefits", which has resulted in a change in the accounting policy for the measurement of employee benfit liabilities. Previously,, the consolidated entity measured the provision for employee benefits based on remuneration rates at the date of recognition of the liability. In accordance with the requirements of the revised standard, the provision for employee benefits is now measured based on remuneration rates expected to be paid when the liability is settled. The effect of the revised policy has been to decrease retained profits and increase employee benefit liabilities at the beginning of the year by $5,649. Current years profits have decreased by $18,803 due to an increase in employee benefits expense. Current provisions at 30 June 2003 have also increased by $17,471 and non current provisions have increased by $1,332 as a result in the change in accounting policy.

Accounting policies

The following is a summary of the material accounting policies adopted by the company in the preparation of the financial report.

a) Taxes

a) Income tax

The company adopts the liability method of tax-effect accounting whereby the income tax expense shown in the profit and loss account is based on the operating profit before income tax adjusted for any permanent differences. Timing differences which arise due to the different accounting periods in which items of revenue and expense are included in the determination of accounting profit and taxable income, are brought to account as either provision for deferred income tax or an asset described as future income tax benefit at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond any reasonable doubt. Future income tax benefits in relation to tax losses are not brought to account unless there is virtual certainty of realisation of the benefit.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income tax legislation and the anticipation that the company will derive sufficient future assessable income and comply with the conditions of deductibility imposed by the law.

b) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of GST except where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and, receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

b) Inventories

Inventories are measured at the lower of cost and net realisable value. Costs are assigned on a first-in first-out basis and include direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenses.

c) Property, plant & equipment

Property, plant and equipment are carried at cost less, where applicable, any accumulated depreciation or amortisation. Where carrying values exceed the recoverable amount, assets are written down.

The carrying amount of property, plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from those assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets employment and subsequent disposal. The expected net cash flows have not been discounted to present values in determining recoverable amount.

The depreciable amount of all fixed assets including buildings, but excluding freehold land, are depreciated on a straight line basis over their effective lives to the company commencing from the time the asset is held ready for use. Properties held for investment purposes are not subject to a depreciation charge. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation/amortisation rates used for each class of depreciable asset are the same as the previous year:

Class of fixed asset	Depreciation rate
Buildings	2.5%
Plant and equipment	5–33.3%
Airport lease	1–2%

d) Leases

(i) Finance leases

Leases of fixed assets, where substantially all the risks and benefits incidental to the ownership of the asset, but not legal ownership, are transferred to the company are classified as finance leases. Finance leases are capitalised recording an asset and a liability equal to the present value of the minimum lease payments, including any guaranteed residual value. Leased assets are depreciated on a straight line basis over their estimated useful lives where it is likely that the economic entity will obtain ownership of the asset or over the term of the lease. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

(ii) Operating leases

Lease payments under operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

e) Investments

Investments are carried at cost. The carrying amount of investments is reviewed annually by directors to ensure it is not in excess of the recoverable amount of these investments. The recoverable amount is assessed from the current market value. The expected net cash flows from investments have not been discounted to their present value in determining the recoverable amounts.

f) Employee entitlements

Provision is made for the company's liability for employee entitlements arising from services rendered by employees to balance date. Employee entitlements expected to be settled within one year together with entitlements arising from wages and salaries, annual leave and sick leave which will be settled after one year, have been measured at their nominal amount. Other employee entitlements payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those entitlements.

Contributions are made by the company to employees' superannuation funds and are charged as expenses when incurred.

g) Cash

For the purposes of the statement of cash flows, cash includes cash on hand and in at call deposits with banks or financial institutions, investments in money market instruments maturing within less than two months, net of bank overdrafts.

h) Revenue recognition

Revenue from the sale of goods is recognised upon the delivery of goods to customers. Interest revenue is recognised on a proportional basis taking in to account the interest rates applicable to the financial assets.

Revenue from the rendering of a service is recognised upon the delivery of the service to the customers.

i) Foreign currency

Transactions in foreign currencies are converted to local currency at the rate of exchange ruling at the date of the transaction.

j) Interest rate swaps

The company enters into interest rate swaps that are used to convert variable interest rate to fixed interest rate.

The swaps are entered into with the objective of reducing the risk of rising interest rates.

k) Trade and other receivables

Trade and other receivables are recognised and carried at original invoice amount less a provision for any uncollectable debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

l) Trade and other payables

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received whether or not billed to the consolidated entity.

m) Loans and borrowings

All loans are measured at the principal amount. Interest is charged as an expense as it accrues.

n) Contributed equity

Ordinary share capital is recognised at fair value of the consideration received by the company.

Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds.

Operating statistics

	2000–01	2001–02	2002–03
PASSENGERS			
Domestic passengers (including transits)	987,457	941,720	1,006,377
International passengers (excluding transit)	1,900	1,400	1,448
International transit passengers			
Domestic on-carriage			
Total passengers	**989,357**	**943,120**	**1,007,825**
AIRCRAFT MOVEMENTS			
Regular public transport aircraft movements	15,728	12,808	11,716
General aviation aircraft movements	1,508	1,278	5,958
Total aircraft movements	**17,236**	**14,086**	**17,674**
TOTAL TONNES LANDED	**340,382**	**321,490**	**342,225**
AVERAGE STAFF EQUIVALENTS			
Aeronautical services	13.6	12.7	14
Non-aeronautical services	4.4	4.3	4
Total average staff equivalents	**18**	**17**	**18**
AREA (HECTARES)			
Aeronautical services	350	350	350
Non-aeronautical services	150	150	150
Total area (hectares)	**500**	**500**	**500**

Launceston airport

Launceston airport is owned and operated by Australia Pacific Airports (Launceston) Pty Ltd. It caters for domestic, regional and general aviation. The following section is based on data from airline surveys and also on information provided by the airport owner.

Quality of service monitoring

Airside services

Runways, taxiways and apron system

The runways and taxiways at Launceston airport received ratings of 'satisfactory' for both availability and standard. No additional comments were received.

At 30 June 2003 Launceston airport had six aircraft parking bays for domestic jet aircraft, a further two for smaller RPT aircraft, one position for freight aircraft, and a further 30 general aviation positions. The size of the total apron area was 31 180 square metres. The availability and standard of the aprons were both rated as 'satisfactory', with no further comments being made.

Gates

Launceston airport received ratings of 'good' for gate availability and of 'satisfactory' to 'good' for the standard of the gate facilities. No further comments were received.

Ground service equipment storage

Launceston airport received ratings of 'satisfactory' for both availability and standard of the GSE storage facilities. No further comments were received.

Terminals

Check-in facilities

Launceston airport operated four check-in desks at 30 June 2003. Airlines gave ratings of 'good' for both availability and standard of the check-in facilities. No further comments were received.

Baggage processing facilities

The airport-operated baggage processing facilities received airline ratings of 'good' for availability and standard. No further comments were received.

Security

Launceston airport's security systems are airline-operated.

Gate lounges

Launceston airport provided 106 seats in 235 square metres of gate lounge area. There were a further 22 seats in non-lounge areas.

Car parking

The airport car park had 380 car parking spaces available as of 30 June 2003, the same as the previous year.

Management responsiveness

Airlines gave ratings of ‘good’ to ‘excellent’ for availability and from ‘satisfactory’ to ‘excellent’ for standard of the management system for addressing quality of service issues. No further comments were received.

Financial accounts reporting

The following section reports the financial accounts of the operator of Launceston airport, Australia Pacific Airports (Launceston) Pty Ltd. It presents statements of financial performance, statements of financial position and cash flow statements for the 2002–03 and 2001–02 financial years and the summary of significant accounting policies from the audited 2002–03 financial accounts.

Statement of financial performance—2002–03

Description	Audited financial statements	Aeronautical services	Non-aeronautical services
	$'000	$'000	$'000
Revenue:			
Aeronautical revenue	3,239	3,239	
Non-aeronautical revenue	3,053		3,053
Interest not allocated	12		
Total revenue	**6,304**	**3,239**	**3,053**
Expenditure:			
Salaries and wages	1,435	696	739
Depreciation	818	534	284
Amortisation of intangibles[12]	13	-	13
Services and utilities	275	99	176
Property maintenance	247	139	108
Security costs[13]	-		
Other costs	1,041	673	368
Total expenditure	**3,829**	**2,141**	**1,688**
Operating profit/(loss)	**2,475**	**1,098**	**1,365**
Earnings before interest and tax (EBIT)	**2,475**	**1,098**	**1,365**
Interest	1,302		
Earnings before tax (EBT)	**1,173**		
Tax charge	491		
Profit/loss after tax	**682**		
Dividends paid	682		
Retained earnings	**-**		

[12] The ACCC 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.

[13] Launceston airport's security clearance system is run by Qantas. As such, the airline does not incur any security expenses.

Statement of financial performance—2001–02

Description	Audited financial statements	Aeronautical services	Non-aeronautical services
	$'000	$'000	$'000
Revenue:			
Aeronautical revenue	1,512	1,512	
Non-aeronautical revenue	3,197		3,197
Interest income	13		13
Total revenue	**4,722**	**1,512**	**3,210**
Expenditure:			
Salaries and wages	1,304	633	671
Depreciation	845	528	317
Amortisation of intangibles[14]	13	-	13
Services and utilities	337	91	246
Property maintenance	165	96	69
Security costs	-	-	-
Other costs	819	516	303
Total expenditure	**3,483**	**1,864**	**1,619**
Operating profit/(loss)	**1,239**	**(352)**	**1,591**
Earnings before interest and tax (EBIT)	**1,239**	**(352)**	**1,591**
Interest	1,201		
Earnings before tax (EBT)	**38**		
Tax expense attributable to profit	133		
Profit/loss after tax	**(95)**		
Dividends paid	-		
Retained earnings	**(95)**		

[14] The ACCC 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 at 30 June 2003

Description	Audited financial statements	Aeronautical services	Non-aeronautical services
	$'000	$'000	$'000
CURRENT ASSETS			
Cash	223		
Receivables	497	266	231
Inventories	1	1	0
Accrued revenue	-		
Other	5	4	1
Total current assets	726	271	232
NON-CURRENT ASSETS			
Receivables	-		
Investments	-		
Property, plant & equipment	16,493	10,511	5,982
Intangibles	1,278	-	1,278
Deferred tax assets	184	89	95
Total non-current assets	17,955	10,600	7,355
Total assets	**18,681**	**10,871**	**7,587**
CURRENT LIABILITIES			
Creditors	1,270		
Provision for dividend	682		
Provisions	533	258	275
Total current liabilities	2,485		
NON-CURRENT LIABILITIES			
Borrowings	13,402		
Provisions	6	3	3
Other Liabilities	258		
Deferred tax liabilities	475	302	173
Total non-current liabilities	14,141		
Total liabilities	**16,626**		
Net assets	**2,055**		
SHAREHOLDER'S EQUITY			
Contributed Equity	2,318		
Accumulated profits/(losses)	(263)		
Total shareholders' equity	**2,055**		
Accumulated profit(loss) at start of year	(263)		
Movements:			
Profit (loss) for the year	682		
Dividends paid	(682)		
Accumulated profit(loss) at end of year	**(263)**		

Statement of financial position at 30 June 2002

Description	Audited financial statements	Aeronautical services	Non-aeronautical services
	$'000	$'000	$'000
CURRENT ASSETS			
Cash	52		
Receivables	370	108	262
Inventories	1	-	1
Accrued revenue	-		
Other	6	5	1
Total current assets	429	113	264
NON-CURRENT ASSETS			
Receivables	-		
Investments	-		
Property, plant & equipment	17,000	10,898	6,102
Intangibles	1,296		1,296
Future income tax benefits	179	86	93
Total non-current assets	18,475	10,984	7,491
Total assets	**18,904**	**11,097**	**7,755**
CURRENT LIABILITIES			
Creditors	290		
Borrowings	218		
Provisions	551	265	286
Total current liabilities	1,059		
NON-CURRENT LIABILITIES			
Borrowings	15,410		
Provisions	380	231	149
Other	-		
Total non-current liabilities	15,790		
Total liabilities	**16,849**		
Net assets	**2,055**		
SHAREHOLDER'S EQUITY			
Share capital	2,318		
Accumulated profits/(losses)	(263)		
Total shareholders' equity	**2,055**		
Accumulated profit(loss) at start of year	(168)		
Movements:			
Profit (loss) for the year	(95)		
Dividends Paid	-		
Accumulated profit(loss) at end of year	**(263)**		

Cash flow statement—2001–02 and 2002–03

Description	2001–02	2002–03
	$'000	$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Inflows:		
Receipts from customers	5,044	6,710
Interest received	13	12
GST received	86	-
Outflows:		
Payments to suppliers and employees	(2,836)	(2,926)
Interest paid	(1,168)	(1,126)
GST paid	(378)	(436)
Net cash flows provided by operating activities	761	2,234
CASH FLOWS FROM INVESTING ACTIVITIES		
Inflows:		
Proceeds from sale of property, plant & equipment	-	39
Outflows:		
Acquisition of property, plant & equipment	(69)	(336)
Net cash flows used in investing activities	(69)	(297)
CASH FLOWS FROM FINANCING ACTIVITIES		
Inflows:		
Proceeds from borrowings	-	1,400
Outflows:		
Repayment of borrowings	(1,000)	(3,150)
Payment of borrowing costs	(50)	(16)
Dividends paid		-
Net cash flows provided by financing activities	(1,050)	(1,766)
Net increase/(decrease) in cash held	**(358)**	**171**
Cash at beginning of reporting period	**410**	**52**
Cash at the end of the reporting period	**52**	**223**

The following notes to the financial accounts are taken from the 2002–03 financial report of Australia Pacific Airports (Launceston) Pty Ltd.

Summary of significant accounting policies

Financial reporting framework

The financial report is a general purpose financial report which has been prepared in accordance with the *Corporations Act 2001*, 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 cost 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.

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) Inventories

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

(b) Receivables

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

(c) 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. 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

(d) Leased 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 lease premium are amortised on a straight line basis over the period of the lease, which is 99 years.

(e) 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.

(f) Capitalisation of interest

Interest costs directly attributable to assets under construction are capitalised as part of the cost of those assets up to the date of completion of each asset.

(g) Recoverable amount of non-current assets

Non-current assets are written down to recoverable amount where the carrying value of the non-current assets exceeds recoverable amount. In determining the recoverable amount of non-current assets, the expected net cash flows have been discounted to their present value.

(h) Payables

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.

(i) Dividends

A liability is recognized for dividends when they have been declared, determined or publicly recommended by the directors.

(j) Interest bearing liabilities

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

(k) 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 and long service leave expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at time of settlement.

Provisions made in respect of long service leave 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.

(l) Revenue recognition

<u>Aeronautical revenue</u>

Revenue from landing and terminal fees is recognised on an accruals basis when the service is provided.

<u>Retail revenue</u>

Revenue from retail customers is recognised on an accruals basis when the service or goods are provided.

<u>Property revenue</u>

Revenue from the rental of property and buildings throughout the airport is recognised on an accruals basis in accordance with terms of relevant lease agreements.

<u>Outgoings, security and other income</u>

Revenue received from recharging of outgoings, security and sundry other income is recognised on an accruals basis when the service or goods are provided.

(m) Goods and Services Tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense or

ii. for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cashflows are included in the statement of cash flows on a gross basis. The GST component of cashflows arising from investing activities which is recoverable from, or payable to, the taxation authority is classified as an operating cashflow.

(n) 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 the underlying debt. Further details of derivative financial instruments are disclosed in Note 27 to the financial statements.

(o) 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.

After the end of financial year, the directors of the ultimate parent entity elected that all wholly-owned Australian entities would join a tax consolidated group from 1 July 2003. Further information about the group's implementation of the tax consolidation system is detailed in Note 4.

4. Income tax

	2003	2002
	$'000	$'000
The prima facie income tax expense on pre-tax accounting profit reconciles to the income tax expense in the financial statements as follows:		
Profit from ordinary activities	**1,173**	**38**
Income tax expense calculated at 30% of operating profit	(352)	(11)
Permanent differences:		
Non-allowable depreciation	(117)	(118)
Amortisation of intangible assets	(4)	(4)
Non-deductible expenses	(18)	-
Income tax expense attributable to operating profit	**(491)**	**(133)**

Tax consolidation system

Legislation to allow groups, comprising a parent entity and its Australian resident wholly-owned entities, to elect to consolidate and be treated as a single entity for income tax purposes was substantively enacted on 21 October 2002. This legislation, which includes both mandatory and elective elements, is applicable to the company as it is a wholly-owned entity of such a group.

The impact of the mandatory elements of the tax consolidation system on existing deferred tax balances of the company has been reflected in the financial statements. Deferred tax assets have been written down to the extent that they are not expected to be realised prior to the implementation of the tax consolidation system and are not supported by reimbursement agreements with the parent entity.

The directors of the parent entity (Australia Pacific Airports Corporation Limited) have elected for those entities within the consolidated group that are wholly-owned Australian resident entities to be taxed as single entity from 1 July 2003. Accordingly, the company has become part of a tax-consolidated group with effect from 1 July 2003. The financial effect of implementing the tax consolidation system has not been recognised in the financial statements. The net effect is not expected to be material as the company has entered into a tax sharing agreement with the parent entity and under the agreement deferred tax assets and deferred tax liabilities will be recognised as intercompany receivables and liabilities.

Operating statistics

	2000–01	2001–02	2002–03
PASSENGERS			
Domestic passengers (including transits)	524,962	534,113	578,416
International passengers (excluding transit)			
International transit passengers			
Domestic on-carriage			
Total passengers	**524,962**	**534,113**	**578,416**
AIRCRAFT MOVEMENTS			
Regular public transport aircraft movements	13,278	9,148	7,516
General aviation aircraft movements	13,156	12,414	7,374
Total aircraft movements	**26,434**	**21,562**	**14,890**
TOTAL TONNES LANDED	**280,452**	**236,480**	**231,015**
AVERAGE STAFF EQUIVALENTS			
Aeronautical services	10	10	10
Non-aeronautical services	10	10	10
Total average staff equivalents	**20**	**20**	**20**
AREA (HECTARES)			
Aeronautical services	157	157	157
Non-aeronautical services	23	23	23
Total area (hectares)	**180**	**180**	**180**

Townsville airport

Townsville airport is owned and operated by Australian Airports (Townsville) Pty Limited, in a joint user agreement with the Department of Defence. It caters for domestic, regional and general aviation. The following section is based on data from airline and ACS surveys, and also on information provided by the airport owner.

Quality of service monitoring

Airside services

Runways, taxiways and apron system

The availability and standard of the runway facilities at Townsville airport received ratings ranging from 'satisfactory' to 'good'. It was commented by one airline that the runways were occasionally disrupted by RAAF movements.

The airport received ratings from 'satisfactory' to 'good' for both availability and standard of taxiways. No further comments were received.

At 30 June 2003 Townsville airport had 17 aircraft apron positions available. Ratings of 'satisfactory' for availability and from 'poor' to 'satisfactory' for standard were given for the apron system. One airline noted congestion during periods of multiple airline departures, while another noted that apron works were at that stage taking place and that they expected their problems with the apron to be resolved when these were completed.

Gates

Townsville airport received ratings from 'poor' to 'good' for availability and from 'poor' to 'satisfactory' for standard of gates. One airline commented that the tarmac surface was poorly maintained in areas. Another said that the gate system was temporary and that parking bays were at a premium due to terminal upgrades.

Ground service equipment storage

The availability and standard of the GSE storage areas received ratings of 'poor' to 'satisfactory'. One airline commented that GSE storage was extremely restricted due to redevelopment and that GSE was being temporarily stored away from the apron, while another noted that the completion of the redevelopments would allow closer access to GSE.

Terminals

Aerobridges

Townsville's aerobridge received ratings of 'poor' for availability and 'satisfactory' for standard. However, it was commented that the planned total of four aerobridges after redevelopment works would be more than adequate.

Check-in facilities

Townsville airport's check-in facilities are a combination of common user desks and those leased out to airline operators. Townsville airport does not operate those counters that are in airline hands. However, one airline noted that the check-in facilities in the domestic terminal were in poor condition, using older scales systems without luggage belts.

Baggage processing facilities

Townsville airport's baggage processing facilities received ratings of 'good' for both availability and standard.

Government inspection

ACS rated the Townsville immigration and customs facilities from between 'poor' to 'good' in various categories. However, it noted that as Townsville only services military aircraft and non-scheduled light aircraft, and not commercial passenger flights, the current facilities are adequate for current needs.

Security

Townsville airport's security clearance systems are airline-operated.

Gate lounges

At 30 June 2003 Townsville airport had 92 seats in 490 square metres of international flight gate lounge and 330 seats in 1707 square metres of domestic flight gate lounge, the same as the previous year.

Flight information displays

Townsville airport provided 12 flight information displays as of 30 June 2003, the same as the previous year.

Car parking

Townsville airport provided 298 short-term parking spaces and 148 long-term parking spaces to the public as of 30 June 2003.

Management responsiveness

Airlines gave the management system for addressing quality of service concerns ratings from 'satisfactory' to 'excellent' with one airline saying that management was always very quick to respond to concerns and two airlines noting that any issues with responsiveness were related to the terminal redevelopments.

Financial accounts reporting

The following section reports the financial accounts of the operator of Townsville airport, Australian Airports (Townsville) Pty Limited. It presents statements of financial performance, statements of financial position and cash flow statements for the 2002–03 and 2001–02 financial years and the summary of significant accounting policies from the audited 2002–03 financial accounts.

Statement of financial performance—2002–03

Description	Audited financial statements	Aeronautical services	Non-aeronautical services
	$'000	$'000	$'000
Revenue:			
Aeronautical revenue	6,274	6,274	
Other non-aeronautical revenue	3,408		3,408
Total revenue	**9,682**	**6,274**	**3,408**
Expenditure:			
Salaries and wages	1,490	910	580
Depreciation	671	523	148
Amortisation of intangibles[15]	-		
Services and utilities	715	528	187
Property maintenance	760	508	252
Security costs[16]	-		
Other costs	1,192	777	415
Total expenditure	**4,828**	**3,246**	**1,582**
Operating profit/(loss)	**4,854**	**3,028**	**1,826**
Abnormal items (see notes)	415	269	146
Earnings before interest and tax (EBIT)	**4,439**		
Interest	879		
Earnings before tax (EBT)	**3,560**		
Tax charge	1,046		
Profit/loss after tax	**2,514**		
Dividends paid	1,941		
Retained earnings	**573**		

15 The ACCC 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 Townsville airport security is the responsibility of the airlines and tenants, with Qantas the designated security agent. Therefore, the airport itself does not directly incur passenger screening security costs. Townsville airport asked that it be noted that it incurs costs for after hours patrols.

Statement of financial performance—2001–02

Description	Audited financial statements	Aeronautical services	Non-aeronautical services
	$'000	$'000	$'000
Revenue:			
Aeronautical revenue	2,904	2,904	
Other non-aeronautical revenue	4,018		4,018
Total revenue	**6,922**	**2,904**	**4,018**
Expenditure:			
Salaries and wages	1,406	825	581
Depreciation	657	502	155
Amortisation of intangibles[17]			
Services and utilities	660	488	172
Property maintenance	582	469	113
Security costs	-		
Other costs	731	480	251
Total expenditure	**4,036**	**2,764**	**1,272**
Operating profit/(loss)	**2,886**	**140**	**2,746**
Abnormal items	397	252	145
Earnings before interest and tax (EBIT)	**2,489**	**(114)**	**2,601**
Interest	891		
Earnings before tax (EBT)	**1,598**		
Tax charge	507		
Profit/loss after tax	**1,091**		
Dividends paid	-		
Retained earnings	**1,091**		

[17] The ACCC 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 at 30 June 2003

Description	Audited financial statements	Aeronautical services	Non-aeronautical services
	$'000	$'000	$'000
CURRENT ASSETS			
Cash	1,256		
Receivables	1,076	939	137
Inventories	-	-	-
Accrued revenue	628	489	139
Other	410	319	91
Total current assets	3,370	1,747	367
NON-CURRENT ASSETS			
Receivables	-	-	-
Investments	-	-	-
Property, plant & equipment	15,740	13,153	2,587
Intangibles	-		
Other	200		
Total non-current assets	15,940	13,153	2,587
Total assets	**19,310**	**14,900**	**2,954**
CURRENT LIABILITIES			
Creditors	1,601		
Borrowings	29		
Tax liabilities	803		
Provisions	1,999	873	1,126
Total current liabilities	4,432		
NON-CURRENT LIABILITIES			
Borrowings	11,526		
Deferred tax liabilities	203		
Provisions	18	10	8
Total non-current liabilities	11,747		
Total liabilities	**16,179**		
Net assets	**3,131**		
SHAREHOLDER'S EQUITY			
Share capital	2,250		
Accumulated profits/(losses)	881		
Total shareholders' equity	**3,131**		
Accumulated profit(loss) at start of year	308		
Movements:			
Profit (loss) for the year	573		
Accumulated profit(loss) at end of year	**881**		

Statement of financial position at 30 June 2002

Description	Audited financial statements	Aeronautical services	Non-aeronautical services
	$'000	$'000	$'000
CURRENT ASSETS			
Cash	1,118		
Receivables	409	383	26
Accrued revenue	285	215	69
Borrowings	250		
Other	10	8	2
Total current assets			
NON-CURRENT ASSETS			
Receivables	-		
Investments	-		
Property, plant & equipment	13,875	11,299	2,576
Intangibles	-		
Other	106		
Total non-current assets	13,981		
Total assets	**16,053**		
CURRENT LIABILITIES			
Creditors	540		
Borrowings	-		
Provisions	1,543	676	867
Total current liabilities	2,083		
NON-CURRENT LIABILITIES			
Borrowings	11,212		
Provisions	200	86	113
Total non-current liabilities	11,412		
Total liabilities	**13,495**		
Net assets	**2,558**		
SHAREHOLDER'S EQUITY			
Share capital	2,250		
Accumulated profits/(losses)	308		
Total shareholders' equity	**2,558**		
Accumulated profit(loss) at start of year	(14)		
Movements:			
Profit (loss) for the year	1,091		
Other	(769)		
Accumulated profit(loss) at end of year	**308**		

Cash flow statement—2001–02 and 2002–03

Description	2001–02	2002–03
	$'000	$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Inflows:		
Receipts from customers and other debtors	7,956	10,076
Interest received	44	59
Outflows:		
Payments to suppliers and employees	(5,137)	(4,963)
Interest paid	(912)	(1,132)
Income tax paid	(165)	(669)
Net cash flows provided by operating activities	**1,786**	**3,371**
CASH FLOWS FROM INVESTING ACTIVITIES		
Inflows:		
Proceeds from sale of property, plant & equipment	115	21
Outflows:		
Acquisition of property, plant & equipment	(1,222)	(2,583)
Net cash flows used in investing activities	**(1007)**	**(2,562)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Inflows:		
Proceeds from borrowings	-	854
Other	-	150
Outflows:		
Repayment of borrowings	(550)	(510)
Repayment of finance lease	(68)	(22)
Repayment of loans by related parties	160	
Dividends paid		(1,143)
Net cash flows provided by financing activities	**(458)**	**(671)**
Net increase/(decrease) in cash held	**321**	**138**
Cash at beginning of reporting period	**797**	**1,118**
Less: Cash not available for use (locked box)		**(340)**
Cash at the end of the reporting period	**1,118**	**916**

The following notes to the financial accounts are taken from the 2002–03 financial report of Australian Airports (Townsville) Pty Ltd.

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*, 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. This special purpose financial report has been prepared in accordance with the requirements of the regulatory information requirements under Part 7 of the Airports Act 1996—Guidelines August 2002.

(a) Income tax

Tax effect accounting procedures are followed whereby the income tax expense in the statement of financial performance is matched with the accounting profit after allowing for permanent differences. The future 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.

(b) Acquisitions of assets

The purchase method of accounting is used for all acquisitions of assets regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus incidental costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their fair value as at the acquisition date based on the best available evidence of the price at which the instruments could be exchanged between, knowledgeable, willing parties in the arm’s length transaction. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of the acquisition. The discount rate used is the entity’s incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Where an entity or operation is acquired and the fair value of the identifiable net assets acquired, including any liability for restructuring costs, exceeds the cost of acquisition, the difference, representing a discount on acquisition, is accounted for by reducing proportionately the fair values of the non-monetary assets acquired until the discount is eliminated. Where, after reducing the recorded amounts of the non-monetary assets acquired to zero, a discount balance remains it is recognised as revenue in the statement of financial performance.

(c) Revenue recognition

Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid. Revenue is recognised for the major business activities as follows:

(i) Aeronautical revenue

Revenue is recognised within the month the activity occurred. Aircraft landings are recorded daily within the aeronautical charges system database and transferred into the financial system at the end of each month. Passenger head charges are recognised within the month incurred and are based on passenger movements from the respective airline operator.

(ii) Commercial revenue (trading and property)

Revenue derived from leases is invoiced one month in advance through the property management system, however only the current month’s revenue is recorded in the financial system for that particular period. Revenue derived from car parking is recognised immediately.

(iii) Other revenue

Revenue derived from other activities such as work performed on behalf of airport tenants is invoiced once the work has been completed. Revenue is brought to account in the month the work was undertaken on an accrual basis if the invoice has not yet been finalised.

(d) Receivables

All trade debtors are recognised at the amounts receivable, as they are due for settlement no more than 30 days from the date of recognition. Collectibility of trade debtors is reviewed on an ongoing basis. Debts, which are known to be uncollectible, are written off, subject to board approval. A general provision for doubtful debts is raised (3% of the balance outstanding) together with a specific provision for debts where recoverability is deemed to be doubtful.

(e) Recoverable amount of non-current assets

The recoverable amount of an asset is the net amount expected to be recovered through the cash inflows and outflows 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 written down to its recoverable amount. Where net cash inflows are derived from a group of assets working together, the recoverable amount is determined on the basis of the relevant group of assets. The decrement in the carrying amount is recognised as an expense in net profit or loss in the reporting period in which the recoverable amount write-down occurs. 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.

(f) Revaluations of non-current assets

Subsequent to initial recognition as assets, land and buildings are measured at fair value being the amounts for which the assets could be exchanged between knowledgeable willing parties in an arm's length transaction. Revaluations are made with sufficient regularity to ensure that the carrying amount of each piece of land and each building does not differ materially from its fair value at the reporting date. Annual assessments will be made by the directors, supplemented by independent assessments at least every three years.

Revaluation increments are credited directly to the asset revaluation reserve, except that, to the extent that an increment reverses a revaluation decrement in respect of that class of asset previously recognised as an expense in net profit or loss, the increment is recognised immediately as revenue in net profit or loss.

(f) Revaluations of non-current assets (continued)

Revaluation decrements are recognised immediately as expenses in net profit or loss, except that, to the extent that a credit balance exists in the asset revaluation reserve in respect of the same class of assets, they are debited directly to the asset revaluation reserve. Revaluation increments and decrements are offset against one another within a class of non-current assets, but not otherwise.

Potential capital gains tax is not taken into account in determining revaluation amounts unless it is expected that a liability for such tax will crystallise. Revaluations do not result in the carrying value of land or buildings exceeding their recoverable amount.

(g) Depreciation of property, plant and equipment

Depreciation is calculated on a straight line basis (effective 1 July 2001 as formerly reducing balance basis) to write off the net cost or revalued amount of each item of property, plant and equipment (excluding land) over its expected useful life to the company. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items. The expected useful lives are as follows:

buildings	40 years
plant and equipment	5 – 15 years
runways, taxiways and aprons	40 years
other infrastructure	5 – 15 years

Where items of plant and equipment have separately identifiable components, which are subject to regular replacement, those components are assigned useful lives distinct from the item of plant and equipment to which they relate. Major spares purchased specifically for particular plant are capitalised and depreciated on the same basis as the plant to which they relate.

(h) Leased non-current assets

A distinction is made between finance leases which effectively transfer from the lessor to the lessee substantially all risks and benefits incident to ownership of leased non-current assets, and operating leases under which the lessor effectively retains substantially all such risks and benefits. At present the company does not hold any operating leases in which lease payments would be charged to the statement of financial performance in the periods in which they are incurred.

Finance leases are capitalised. A lease asset and liability are established at the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the interest expense. The lease is amortised on a straight line basis over the term of the lease, or where it is likely that the company will obtain ownership of the asset, the life of the asset. Lease assets held at the reporting date are being amortised over a four year period.

(i) Non-current assets constructed by the company

The cost of non-current assets constructed by the company includes the cost of all materials used in construction, direct labour on the project, borrowing costs incurred during construction and an appropriate proportion of variable and fixed overhead.

Borrowing costs included in the cost of non-current assets are those costs that would have been avoided if the expenditure on the construction of the assets had not been made. Borrowing costs incurred while active construction is interrupted for extended periods are recognised as expenses.

(j) Trade and other creditors

Trade creditors represent liabilities for goods and services provided to the company prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(k) Interest bearing liabilities

Loans are carried at their principal amounts less loan repayments made within the given financial year. The carrying value of the loans represents the present value of future cash flows associated with servicing the debt. Interest is accrued over the period it becomes due and is recorded as part of other creditors.

(l) Dividends

Provision is made for the amount of any dividend declared, determined or recommended by the directors' on or before the end of the financial year but not distributed at balance date. This policy is accordance with AASB 1044 *Provisions, Contingent Liabilities and Contingent Assets* released in October 2001.

(m) Maintenance and repairs

The company's plant is required to be overhauled on a regular basis. This is managed as part of an ongoing major cyclical maintenance program. The costs of this maintenance are charged as expenses as incurred, except where they relate to the replacement of a component of an asset, in which case the costs are capitalised and depreciated in accordance with note 1(h). Other routine operating maintenance, repair and minor renewal costs are also charged as expenses as incurred.

(n) Web site costs

Costs in relation to web sites controlled by the company are charged as expenses in the period in which they are incurred unless they relate to the acquisition of an asset, in which case they are capitalised and amortised over their period of expected benefit. Generally, costs in relation to feasibility studies during the planning phase of a web site, and ongoing costs of maintenance during the operating phase are considered to be expenses.

Costs incurred in building or enhancing a web site, to the extent that they represent probable future economic benefits controlled by the company that can be reliably measured, are capitalised as an asset and amortised over the period of the expected benefits which vary from two to five years.

(o) Employee entitlements

(i) Wages and salaries and annual leave

Liabilities for wages and salaries expected to be settled within twelve months of the reporting date are recognised as other creditors whilst liabilities for annual leave are recognised in the provision for employee benefits. Liabilities for wages and salaries and annual leave are measured as the amounts expected to be paid when the liabilities are settled based on current pay rates.

(ii) Long service leave

A liability for long service leave expected to be settled within twelve months of the reporting date is recognised in the provision for employee benefits and is measured in accordance with (i) above.

The liability for long service leave expected to be settled more than twelve months from the reporting date is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date.

Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Superannuation

Superannuation contributions made on behalf of the employee are recognised as expenses in the period in which the contributions are incurred. The fund (as disclosed in Note 29) is administered externally and therefore the company does not recognise any liabilities or assets with respect to the present value of the employee's accrued benefits as at a particular reporting date. The cost to the company for those employees who were existing members of the FAC Fund prior to privatisation is 15% of the individual's salary as defined in the fund's trust deed. For all new employees the level sponsored by the company is in accordance with the superannuation guarantee levy.

(iv) Employee benefit on-costs

Employee benefit on-costs, including payroll tax are recognised and included in employee benefit liabilities and costs when the employee benefits to which they relate are recognised as liabilities.

(p) Borrowing costs

Borrowing costs are recognised as expenses in the period in which they are incurred, except where they are included in the costs of qualifying assets—refer to note (i). The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the company's outstanding borrowings during the year, in this case 8.13% (2002—7.99%). Borrowing costs include:

- interest on bank overdrafts, short-term and long-term borrowings
- amortisation of discounts or premiums relating to borrowings,
- amortisation of ancillary costs incurred in connection with the arrangement of borrowings, and
- finance lease charges.

(q) Cash

For purposes of the statement of cash flows, cash includes deposits at call with financial institutions and other highly liquid investments with short periods to maturity, which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value, net of outstanding bank overdrafts.

(r) Rounding of amounts

The company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities and Investment Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that class order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

(s) Reclassification of liabilities for certain employee benefits

The liabilities for annual leave and related on-costs expected to be settled within twelve months of reporting date have not been reclassified from provisions to other creditors in the current year as a result of the adoption of the new accounting standard, AASB 1044 *Provisions, Contingent Liabilities and Contingent Assets*. The directors believe that the liabilities for these employee benefits satisfy the definition of a provision under the new standard.

Abnormal Items for the year ended 30 June 2003

Abnormal items	**2003**	2002
	$'000	$,000
Operating profit after income tax includes the following abnormal items:		
Expenses		
Redundancy payments	**-**	95
Bad debt write off	**-**	170
Borrowing costs	**268**	71
SEST treatment	**100**	-
Disposal of assets	**47**	61
Less: Applicable income tax credit	**(124)**	(119)
	291	278
Abnormal items before income tax	**415**	397
Less: Applicable income tax	**(124)**	(119)
Abnormal items after income tax	**291**	278

Analysis of abnormal Items

	Aeronautical $'000	Non Aeronautical $'000
Borrowing costs		
The costs associated with the refinancing of borrowings have been included as abnormal items. Such expenditure includes legal fees, stamp duty, establishment fees and valuation fees.	**122**	**146**
SEST treatment		
The costs associated with the SEST treatment have been treated as abnormal due to the size of the expenditure and its irregular occurrence. The SEST treatment assists in prolonging the life of the runway, taxiways and aprons.	**100**	**-**
Disposal of assets		
The loss associated with the disposal of obsolete non current assets is recognised as an abnormal item and has been allocated based on the function of the asset.	**47**	**-**

Operating statistics

	2000–01	2001–02	2002–03
PASSENGERS			
Domestic passengers (including transits)	790,216	802,864	807,121
Charter Passengers (fly in fly out—mining)[18]	50,958	55,195	103,013
International passengers (excluding transit)	2,461	7,730	2,443
International transit passengers			
Total passengers	**843,635**	**865,789**	**912,577**
AIRCRAFT MOVEMENTS			
Regular public transport aircraft movements	22,286	15,632	14,956
General aviation aircraft movements	26,658	32,084	30,540
Total aircraft movements	**48,944**	**47,716**	**45,496**
TOTAL TONNES LANDED	**363,955**	**347,629**	**357,008**
AVERAGE STAFF EQUIVALENTS			
Aeronautical services	6.0	5	5
Non-aeronautical services	11.0	11	14
Total average staff equivalents	**17**	**16**	**19**
AREA (HECTARES)			
Aeronautical services	61	61	61
Non-aeronautical services	20	20	20
Total area (hectares)	**81**	**81**	**81**

[18] Townsville airport advised that charter passenger numbers for 2000-01 and 2001-02 were not readily available from one charter operator, leading to distortions in the charter numbers for these years.